

105TH CONGRESS
2D SESSION

H. R. 4597

To provide tax relief for individuals, families, and farming and other small businesses, to provide tax incentives for education, to extend certain expiring provisions, to protect the solvency of the Social Security System, to reserve social security surpluses solely for the Social Security System, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 18, 1998

Mr. RANGEL (for himself, Mr. STARK, Mr. MATSUI, Mr. COYNE, Mr. LEVIN, Mr. CARDIN, Mr. McDERMOTT, Mr. KLECZKA, Mr. LEWIS of Georgia, Mr. NEAL of Massachusetts, Mr. McNULTY, Mr. JEFFERSON, Mr. TANNER, Mr. BECERRA, and Mrs. THURMAN) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To provide tax relief for individuals, families, and farming and other small businesses, to provide tax incentives for education, to extend certain expiring provisions, to protect the solvency of the Social Security System, to reserve social security surpluses solely for the Social Security System, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE, ETC.**

2 (a) SHORT TITLE.—This Act may be cited as the
3 “Save Social Security and Taxpayer Relief Act of 1998”.

4 (b) AMENDMENT OF 1986 CODE.—Except as other-
5 wise expressly provided, whenever in this Act an amend-
6 ment or repeal is expressed in terms of an amendment
7 to, or repeal of, a section or other provision, the reference
8 shall be considered to be made to a section or other provi-
9 sion of the Internal Revenue Code of 1986.

10 (c) TABLE OF CONTENTS.—

Sec. 1. Short title, etc.

**TITLE I—PROVISIONS PRIMARILY AFFECTING INDIVIDUALS AND
FAMILIES**

Subtitle A—General Provisions

- Sec. 101. Elimination of marriage penalty in standard deduction.
- Sec. 102. Exemption of certain interest and dividend income from tax.
- Sec. 103. Nonrefundable personal credits allowed against alternative minimum tax.
- Sec. 104. 100 percent deduction for health insurance costs of self-employed individuals.
- Sec. 105. Special rule for members of uniformed services and Foreign Service in determining exclusion of gain from sale of principal residence.
- Sec. 106. \$1,000,000 exemption from estate and gift taxes.

Subtitle B—Provisions Relating to Education

- Sec. 111. Eligible educational institutions permitted to maintain qualified tuition programs.
- Sec. 112. Modification of arbitrage rebate rules applicable to public school construction bonds.

Subtitle C—Provisions Relating to Social Security

- Sec. 121. Increases in the social security earnings limit for individuals who have attained retirement age.
- Sec. 122. Recomputation of benefits after normal retirement age.

**TITLE II—PROVISIONS PRIMARILY AFFECTING FARMING AND
OTHER BUSINESSES**

Subtitle A—Increase in Expense Treatment for Small Businesses

Sec. 201. Increase in expense treatment for small businesses.

Subtitle B—Provisions Relating to Farmers

Sec. 211. Income averaging for farmers made permanent.

Sec. 212. 5-year net operating loss carryback for farming losses.

Sec. 213. Production flexibility contract payments.

Subtitle C—Increase in Volume Cap on Private Activity Bonds

Sec. 221. Increase in volume cap on private activity bonds.

TITLE III—EXTENSION AND MODIFICATION OF CERTAIN EXPIRING PROVISIONS

Subtitle A—Tax Provisions

Sec. 301. Research credit.

Sec. 302. Work opportunity credit.

Sec. 303. Welfare-to-work credit.

Sec. 304. Contributions of stock to private foundations; expanded public inspection of private foundations' annual returns.

Sec. 305. Subpart F exemption for active financing income.

Subtitle B—Generalized System of Preferences

Sec. 311. Extension of Generalized System of Preferences.

TITLE IV—REVENUE OFFSET

Sec. 401. Treatment of certain deductible liquidating distributions of regulated investment companies and real estate investment trusts.

TITLE V—TECHNICAL CORRECTIONS

Sec. 501. Definitions; coordination with other titles.

Sec. 502. Amendments related to Internal Revenue Service Restructuring and Reform Act of 1998.

Sec. 503. Amendments related to Taxpayer Relief Act of 1997.

Sec. 504. Amendments related to Tax Reform Act of 1984.

Sec. 505. Other amendments.

TITLE VI—AMERICAN COMMUNITY RENEWAL ACT OF 1998

Sec. 601. Short title.

Sec. 602. Findings and purpose.

Subtitle A—Designation and Evaluation of Renewal Communities

Sec. 611. Short title.

Sec. 612. Statement of purpose.

Sec. 613. Designation of renewal communities.

Sec. 614. Evaluation and reporting requirements.

Sec. 615. Interaction with other Federal programs.

Subtitle B—Tax Incentives for Renewal Communities

Sec. 621. Tax treatment of renewal communities.

Sec. 622. Extension of work opportunity tax credit for renewal communities

Sec. 623. Conforming and clerical amendments.

TITLE VII—TAX REDUCTIONS CONTINGENT ON SAVING SOCIAL
SECURITY

Sec. 701. Tax reductions contingent on saving social security.

Sec. 702. Reservation of social security surpluses solely for social security system.

1 TITLE I—PROVISIONS PRIMARILY AFFECTING INDIVIDUALS AND FAMILIES

4 Subtitle A—General Provisions

5 SEC. 101. ELIMINATION OF MARRIAGE PENALTY IN STANDARD DEDUCTION.

7 (a) IN GENERAL.—Paragraph (2) of section 63(c)
8 (relating to standard deduction) is amended—

9 (1) by striking “\$5,000” in subparagraph (A)
10 and inserting “twice the dollar amount in effect
11 under subparagraph (C) for the taxable year”,

12 (2) by adding “or” at the end of subparagraph
13 (B),

14 (3) by striking “in the case of” and all that fol-
15 lows in subparagraph (C) and inserting “in any
16 other case.”, and

17 (4) by striking subparagraph (D).

18 (b) ADDITIONAL STANDARD DEDUCTION FOR AGED
19 AND BLIND TO BE THE SAME FOR MARRIED AND UN-
20 MARRIED INDIVIDUALS.—

1 (1) Paragraphs (1) and (2) of section 63(f) are
 2 each amended by striking “\$600” and inserting
 3 “\$750”.

4 (2) Subsection (f) of section 63 is amended by
 5 striking paragraph (3) and by redesignating para-
 6 graph (4) as paragraph (3).

7 (c) TECHNICAL AMENDMENT.—Subparagraph (B) of
 8 section 1(f)(6) is amended by striking “(other than with”
 9 and all that follows through “shall be applied” and insert-
 10 ing “(other than with respect to sections 63(c)(4) and
 11 151(d)(4)(A)) shall be applied”.

12 (d) EFFECTIVE DATE.—The amendments made by
 13 this section shall apply to taxable years beginning after
 14 December 31, 1998.

15 **SEC. 102. EXEMPTION OF CERTAIN INTEREST AND DIVI-**
 16 **DEND INCOME FROM TAX.**

17 (a) IN GENERAL.—Part III of subchapter B of chap-
 18 ter 1 (relating to amounts specifically excluded from gross
 19 income) is amended by inserting after section 115 the fol-
 20 lowing new section:

21 **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTER-**
 22 **EST RECEIVED BY INDIVIDUALS.**

23 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
 24 come does not include dividends and interest received dur-
 25 ing the taxable year by an individual.

1 “(b) LIMITATIONS.—

2 “(1) MAXIMUM AMOUNT.—The aggregate
3 amount excluded under subsection (a) for any tax-
4 able year shall not exceed \$200 (\$400 in the case of
5 a joint return).

6 “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-
7 section (a) shall not apply to any dividend from a
8 corporation which, for the taxable year of the cor-
9 poration in which the distribution is made, or for the
10 next preceding taxable year of the corporation, is a
11 corporation exempt from tax under section 501 (re-
12 lating to certain charitable, etc., organization) or
13 section 521 (relating to farmers’ cooperative associa-
14 tions).

15 “(c) SPECIAL RULES.—For purposes of this sec-
16 tion—

17 “(1) DISTRIBUTIONS FROM REGULATED IN-
18 VESTMENT COMPANIES AND REAL ESTATE INVEST-
19 MENT TRUSTS.—Subsection (a) shall apply with re-
20 spect to distributions by—

21 “(A) regulated investment companies sub-
22 ject to the limitations provided in section
23 854(b), and

24 “(B) real estate investment trusts subject
25 to the limitations provided in section 857(c).

1 “(2) DISTRIBUTIONS BY A TRUST.—For pur-
 2 poses of subsection (a), the amount of dividends and
 3 interest properly allocable to a beneficiary under sec-
 4 tion 652 or 662 shall be deemed to have been re-
 5 ceived by the beneficiary ratably on the same date
 6 that the dividends and interest were received by the
 7 estate or trust.

8 “(3) CERTAIN NONRESIDENT ALIENS INELI-
 9 GIBLE FOR EXCLUSION.—In the case of a non-
 10 resident alien individual, subsection (a) shall apply
 11 only—

12 “(A) in determining the tax imposed for
 13 the taxable year pursuant to section 871(b)(1)
 14 and only in respect of dividends and interest
 15 which are effectively connected with the conduct
 16 of a trade or business within the United States,
 17 or

18 “(B) in determining the tax imposed for
 19 the taxable year pursuant to section 877(b).

20 “(4) DIVIDENDS FROM EMPLOYEE STOCK OWN-
 21 ERSHIP PLANS.—Subsection (a) shall not apply to
 22 any dividend described in section 404(k).”

23 (b) CONFORMING AMENDMENTS.—

24 (1) Paragraph (2) of section 265(a) is amended
 25 by inserting before the period “, or to purchase or

1 carry obligations or shares, or to make deposits, to
 2 the extent the interest thereon is excludable from
 3 gross income under section 116”.

4 (2) Subsection (c) of section 584 is amended by
 5 adding at the end thereof the following new flush
 6 sentence:

7 “The proportionate share of each participant in the
 8 amount of dividends or interest received by the common
 9 trust fund and to which section 116 applies shall be con-
 10 sidered for purposes of such section as having been re-
 11 ceived by such participant.”

12 (3) Subsection (a) of section 643 is amended by
 13 redesignating paragraph (7) as paragraph (8) and
 14 by inserting after paragraph (6) the following new
 15 paragraph:

16 “(7) DIVIDENDS OR INTEREST.—There shall be
 17 included the amount of any dividends or interest ex-
 18 cluded from gross income pursuant to section 116.”

19 (4) Section 854 is amended to read as follows:

20 **“SEC. 854. LIMITATIONS APPLICABLE TO DIVIDENDS RE-**
 21 **CEIVED FROM REGULATED INVESTMENT**
 22 **COMPANY.**

23 “(a) CAPITAL GAIN DIVIDEND.—For purposes of sec-
 24 tion 116 (relating to partial exclusion of dividends and in-
 25 terest received by individuals) and section 243 (relating

1 to deductions for dividends received by corporations), a
 2 capital gain dividend (as defined in section 852(b)(3)) re-
 3 ceived from a regulated investment company shall not be
 4 considered as a dividend.

5 “(b) OTHER DIVIDENDS.—

6 “(1) AMOUNT TREATED AS DIVIDEND.—

7 “(A) DEDUCTION UNDER SECTION 243.—

8 In any case in which—

9 “(i) a dividend is received from a reg-
 10 ulated investment company (other than a
 11 dividend to which subsection (a) applies),
 12 and

13 “(ii) such investment company meets
 14 the requirements of section 852(a) for the
 15 taxable year during which it paid such div-
 16 idend,

17 then, in computing any deduction under section
 18 243, there shall be taken into account only that
 19 portion of such dividend designated under this
 20 subparagraph by the regulated investment com-
 21 pany and such dividend shall be treated as re-
 22 ceived from a corporation which is not a 20-per-
 23 cent owned corporation.

24 “(B) EXCLUSION UNDER SECTION 116.—If
 25 the aggregate dividends and interest received by

1 a regulated investment company during any
2 taxable year are less than 95 percent of its
3 gross income, then in computing the exclusion
4 under section 116, rules similar to the rules of
5 subparagraph (A) shall apply.

6 “(C) LIMITATIONS.—

7 “(i) SECTION 243.—The aggregate
8 amount which may be designated as divi-
9 dends under subparagraph (A) shall not
10 exceed the aggregate dividends received by
11 the company for the taxable year.

12 “(ii) SECTION 116.—The aggregate
13 amount which may be designated as divi-
14 dends under subparagraph (B) shall not
15 exceed the sum of the aggregate dividends
16 and aggregate interest received by the
17 company for the taxable year.

18 “(2) NOTICE TO SHAREHOLDERS.—The amount
19 of any distribution by a regulated investment com-
20 pany which may be taken into account as a dividend
21 for purposes of the exclusion under section 116 and
22 the deduction under section 243 shall not exceed the
23 amount so designated by the company in a written
24 notice to its shareholders mailed not later than 60
25 days after the close of its taxable year.

1 “(3) DEFINITIONS.—For purposes of this sub-
2 section—

3 “(A) GROSS INCOME.—In the case of 1 or
4 more sales or other dispositions of stock or se-
5 curities, the term ‘gross income’ includes only
6 the excess of—

7 “(i) the net short-term capital gain
8 from such sales or dispositions, over

9 “(ii) the net long-term capital loss
10 from such sales or dispositions.

11 “(B) AGGREGATE DIVIDENDS.—

12 “(i) IN GENERAL.—The term ‘aggre-
13 gate dividends’ does not include dividends
14 described in section 116(b)(2) (relating to
15 dividends excluded from income).

16 “(ii) DISTRIBUTIONS FROM REAL ES-
17 TATE INVESTMENT TRUSTS AND OTHER
18 REGULATED INVESTMENT COMPANIES.—In
19 determining the amount of any dividend
20 for purposes of this subparagraph, the
21 rules of section 116(c)(1) shall apply; ex-
22 cept that, for purposes of applying sub-
23 paragraph (C)(i) of paragraph (1), aggre-
24 gate dividends shall not include a distribu-
25 tion from a real estate investment trust

1 which, for the taxable year of the trust in
2 which the dividend is paid, qualifies under
3 part II of subchapter M (section 856 and
4 following).

5 “(C) AGGREGATE INTEREST.—The term
6 ‘aggregate interest’ means only interest includ-
7 ible in gross income. Gross income and aggre-
8 gate interest received shall each be reduced by
9 so much of the deduction allowable by section
10 163 for the taxable year as does not exceed ag-
11 gregate interest received for the taxable year.

12 “(4) SPECIAL RULE FOR COMPUTING DEDUC-
13 TION UNDER SECTION 243.—For purposes of sub-
14 paragraph (A) of paragraph (1), an amount shall be
15 treated as a dividend for the purpose of paragraph
16 (1) only if a deduction would have been allowable
17 under section 243 to the regulated investment com-
18 pany determined—

19 “(A) as if section 243 applied to dividends
20 received by a regulated investment company,

21 “(B) after the application of section 246
22 (but without regard to subsection (b) thereof),
23 and

24 “(C) after the application of section
25 246A.”

1 (5) Subsection (c) of section 857 is amended to
2 read as follows:

3 “(c) LIMITATIONS APPLICABLE TO DIVIDENDS RE-
4 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

5 “(1) CAPITAL GAIN DIVIDEND.—For purposes
6 of section 116 (relating to partial exclusion of divi-
7 dends and interest received by individuals), a capital
8 gain dividend (as defined in subsection (b)(3)(C)) re-
9 ceived from a real estate investment trust which
10 meets the requirements of this part shall not be con-
11 sidered as a dividend.

12 “(2) ONLY PORTION OF DIVIDEND EXCLUD-
13 ABLE UNDER SECTION 116 IN CERTAIN CASES.—

14 “(A) IN GENERAL.—In any case in
15 which—

16 “(i) a dividend is received from a real
17 estate investment trust (other than a cap-
18 ital gain dividend, as defined in subsection
19 (b)(3)(C)),

20 “(ii) such trust meets the require-
21 ments of this part for the taxable year dur-
22 ing which it paid such dividend, and

23 “(iii) the aggregate interest received
24 by such trust during the taxable year is
25 less than 95 percent of its gross income,

1 then, in computing any exclusion under section
2 116, there shall be taken into account only that
3 portion of such dividend designated under this
4 subparagraph as interest by the real estate in-
5 vestment trust.

6 “(B) LIMITATION.—The aggregate amount
7 which may be designated as interest under sub-
8 paragraph (A) shall not exceed the aggregate
9 interest received by the trust for the taxable
10 year.

11 “(3) ADJUSTMENTS TO GROSS INCOME AND AG-
12 GREGATE INTEREST RECEIVED.—For purposes of
13 this subsection—

14 “(A) gross income does not include net
15 capital gain,

16 “(B) gross income and aggregate interest
17 received shall each be reduced by so much of
18 the deduction allowable by section 163 for the
19 taxable year (other than for interest on mort-
20 gages on real property owned by the real estate
21 investment trust) as does not exceed aggregate
22 interest received for the taxable year, and

23 “(C) gross income shall be reduced by the
24 sum of the taxes imposed by paragraphs (4),
25 (5), and (6) of subsection (b).

1 “(4) AGGREGATE INTEREST.—For purposes of
2 this subsection, the term ‘aggregate interest’ means
3 only interest includible in gross income.

“(5) NOTICE TO SHAREHOLDERS.—The amount of any distribution by a real estate investment trust which may be taken into account as interest for purposes of the exclusion under section 116 shall not exceed the amount so designated by the trust in a written notice to its shareholders mailed not later than 60 days after the close of its taxable year.

11 “(6) CROSS REFERENCE.—

“For restriction on dividends received by a corporation, see section 243(d)(3).”

(6) The table of sections for part III of subchapter B of chapter 1 is amended by inserting after the item relating to section 115 the following new item:

“Sec. 116. Partial exclusion of dividends and interest received by individuals.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1998.

19 SEC. 103. NONREFUNDABLE PERSONAL CREDITS ALLOWED
20 AGAINST ALTERNATIVE MINIMUM TAX.

21 (a) IN GENERAL.—Subsection (a) of section 26 is
22 amended to read as follows:

1 “(a) LIMITATION BASED ON AMOUNT OF TAX.—The
 2 aggregate amount of credits allowed by this subpart for
 3 the taxable year shall not exceed the sum of—

4 “(1) the taxpayer’s regular tax liability for the
 5 taxable year, and

6 “(2) the tax imposed for the taxable year by
 7 section 55(a).”.

8 (b) CONFORMING AMENDMENTS.—

9 (1) Subsection (d) of section 24 is amended by
 10 striking paragraph (2) and by redesignating para-
 11 graph (3) as paragraph (2).

12 (2) Section 32 is amended by striking sub-
 13 section (h).

14 (c) EFFECTIVE DATE.—The amendments made by
 15 this section shall apply to taxable years beginning after
 16 December 31, 1997.

17 **SEC. 104. 100 PERCENT DEDUCTION FOR HEALTH INSUR-**
 18 **ANCE COSTS OF SELF-EMPLOYED INDIVID-**
 19 **UALS.**

20 (a) IN GENERAL.—Paragraph (1) of section 162(l)
 21 (relating to special rules for health insurance costs of self-
 22 employed individuals) is amended to read as follows:

23 “(1) ALLOWANCE OF DEDUCTION.—In the case of an
 24 individual who is an employee within the meaning of sec-
 25 tion 401(c)(1), there shall be allowed as a deduction under

1 this section an amount equal to 100 percent of the amount
 2 paid during the taxable year for insurance which con-
 3 stitutes medical care for the taxpayer, his spouse, and de-
 4 pendants.”

5 (b) EFFECTIVE DATE.—The amendment made by
 6 this section shall apply to taxable years beginning after
 7 December 31, 1998.

8 **SEC. 105. SPECIAL RULE FOR MEMBERS OF UNIFORMED**
 9 **SERVICES AND FOREIGN SERVICE IN DETER-**
 10 **MINING EXCLUSION OF GAIN FROM SALE OF**
 11 **PRINCIPAL RESIDENCE.**

12 (a) IN GENERAL.—Subsection (d) of section 121 (re-
 13 lating to exclusion of gain from sale of principal residence)
 14 is amended by adding at the end the following new para-
 15 graph:

16 “(9) MEMBERS OF UNIFORMED SERVICES AND
 17 FOREIGN SERVICE.—

18 “(A) IN GENERAL.—The running of the 5-
 19 year period described in subsection (a) shall be
 20 suspended with respect to an individual during
 21 any time that such individual or such individ-
 22 ual’s spouse is serving on qualified official ex-
 23 tended duty as a member of the uniformed
 24 services or of the Foreign Service.

1 “(B) QUALIFIED OFFICIAL EXTENDED
2 DUTY.—For purposes of subparagraph (A)—

3 “(i) IN GENERAL.—For purposes of
4 this paragraph, the term ‘qualified official
5 extended duty’ means any period of ex-
6 tended duty as a member of the uniformed
7 services or a member of the Foreign Serv-
8 ice during which the member serves at a
9 duty station which is at least 50 miles
10 from such property or is under Govern-
11 ment orders to reside in Government quar-
12 ters.

13 “(ii) UNIFORMED SERVICES.—For
14 purposes of clause (i), the term ‘uniformed
15 services’ has the meaning given such term
16 by section 101(a)(5) of title 10, United
17 States Code, as in effect on the date of the
18 enactment of this paragraph.

19 “(iii) FOREIGN SERVICE OF THE
20 UNITED STATES.—For purposes of clause
21 (i), the term ‘member of the Foreign Serv-
22 ice’ has the meaning given the term ‘mem-
23 ber of the Service’ by paragraph (1), (2),
24 (3), (4), or (5) of section 103 of the For-
25 eign Service Act of 1980, as in effect on

1 the date of the enactment of this para-
 2 graph.

3 “(iv) EXTENDED DUTY.—The term
 4 ‘extended duty’ means any period of active
 5 duty pursuant to a call or order to such
 6 duty for a period in excess of 90 days or
 7 for an indefinite period.”.

8 (b) EFFECTIVE DATE.—The amendment made by
 9 this section shall apply to sales and exchanges after the
 10 date of the enactment of this Act.

11 **SEC. 106. \$1,000,000 EXEMPTION FROM ESTATE AND GIFT**
 12 **TAXES.**

13 (a) IN GENERAL.—Subsection (c) of section 2010
 14 (relating to applicable credit amount) is amended to read
 15 as follows:

16 “(c) APPLICABLE CREDIT AMOUNT.—

17 “(1) IN GENERAL.—For purposes of this sec-
 18 tion, the applicable credit amount is \$345,800.

19 “(2) APPLICABLE EXCLUSION AMOUNT.—For
 20 purposes of the provisions of this title which refer to
 21 this subsection, the applicable exclusion amount is
 22 \$1,000,000.”

23 (b) EFFECTIVE DATE.—The amendment made by
 24 this section shall apply to estates of decedents dying, and
 25 gifts made, after December 31, 1998.

1 **Subtitle B—Provisions Relating to**
2 **Education**

3 **SEC. 111. ELIGIBLE EDUCATIONAL INSTITUTIONS PER-**
4 **MITTED TO MAINTAIN QUALIFIED TUITION**
5 **PROGRAMS.**

6 (a) IN GENERAL.—Paragraph (1) of section 529(b)
7 (defining qualified State tuition program) is amended by
8 inserting “or by 1 or more eligible educational institu-
9 tions” after “maintained by a State or agency or instru-
10 mentality thereof”.

11 (b) TECHNICAL AMENDMENTS.—

12 (1) The texts of sections 72(e)(9), 135(c)(2)(C),
13 135(d)(1)(D), 529, 530, and 4973(e)(1)(B) are each
14 amended by striking “qualified State tuition pro-
15 gram” each place it appears and inserting “qualified
16 tuition program”.

17 (2) The paragraph heading for paragraph (9) of
18 section 72(e) and the subparagraph heading for sub-
19 paragraph (B) of section 530(b)(2) are each amend-
20 ed by striking “QUALIFIED STATE TUITION PRO-
21 GRAMS” and inserting “QUALIFIED TUITION PRO-
22 GRAMS”.

23 (3) The subparagraph heading for subpara-
24 graph (C) of section 135(c)(2) is amended by strik-

1 ing “QUALIFIED STATE TUITION PROGRAM” and in-
 2 serting “QUALIFIED TUITION PROGRAMS”.

3 (4) Sections 529(c)(3)(D)(i) and 6693(a)(2)(C)
 4 are each amended by striking “qualified State tui-
 5 tion programs” and inserting “qualified tuition pro-
 6 grams”.

7 (5)(A) The section heading of section 529 is
 8 amended to read as follows:

9 **“SEC. 529. QUALIFIED TUITION PROGRAMS.”.**

10 (B) The item relating to section 529 in the
 11 table of sections for part VIII of subchapter F of
 12 chapter 1 is amended by striking “State”.

13 (c) EFFECTIVE DATE.—The amendments made by
 14 this section shall take effect on January 1, 1999.

15 **SEC. 112. MODIFICATION OF ARBITRAGE REBATE RULES**

16 **APPLICABLE TO PUBLIC SCHOOL CONSTRUC-**
 17 **TION BONDS.**

18 (a) IN GENERAL.—Subparagraph (C) of section
 19 148(f)(4) is amended by adding at the end the following
 20 new clause:

21 “(xviii) 4-YEAR SPENDING REQUIRE-
 22 MENT FOR PUBLIC SCHOOL CONSTRUCTION
 23 ISSUE.—

24 “(I) IN GENERAL.—In the case
 25 of a public school construction issue,

1 the spending requirements of clause
2 (ii) shall be treated as met if at least
3 10 percent of the available construc-
4 tion proceeds of the construction issue
5 are spent for the governmental pur-
6 poses of the issue within the 1-year
7 period beginning on the date the
8 bonds are issued, 30 percent of such
9 proceeds are spent for such purposes
10 within the 2-year period beginning on
11 such date, 50 percent of such pro-
12 ceeds are spent for such purposes
13 within the 3-year period beginning on
14 such date, and 100 percent of such
15 proceeds are spent for such purposes
16 within the 4-year period beginning on
17 such date.

18 “(II) PUBLIC SCHOOL CON-
19 STRUCTION ISSUE.—For purposes of
20 this clause, the term ‘public school
21 construction issue’ means any con-
22 struction issue if no bond which is
23 part of such issue is a private activity
24 bond and all of the available construc-
25 tion proceeds of such issue are to be

used for the construction (as defined in clause (iv)) of public school facilities to provide education or training below the postsecondary level or for the acquisition of land that is functionally related and subordinate to such facilities.

“(III) OTHER RULES TO APPLY.—Rules similar to the rules of the preceding provisions of this subparagraph which apply to clause (ii) also apply to this clause.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to obligations issued after December 31, 1998.

Subtitle C—Provisions Relating to Social Security

SEC. 121. INCREASES IN THE SOCIAL SECURITY EARNINGS LIMIT FOR INDIVIDUALS WHO HAVE ATTAINED RETIREMENT AGE.

(a) IN GENERAL.—Section 203(f)(8)(D) of the Social Security Act (42 U.S.C. 403(f)(8)(D)) is amended by striking clauses (iv) through (vii) and inserting the following new clauses:

1 “(iv) for each month of any taxable
2 year ending after 1998 and before 2000,
3 \$1,416.66²/₃,

4 “(v) for each month of any taxable
5 year ending after 1999 and before 2001,
6 \$1,541.66²/₃,

7 “(vi) for each month of any taxable
8 year ending after 2000 and before 2002,
9 \$2,166.66²/₃,

10 “(vii) for each month of any taxable
11 year ending after 2001 and before 2003,
12 \$2,500.00,

13 “(viii) for each month of any taxable
14 year ending after 2002 and before 2004,
15 \$2,608.33¹/₃,

16 “(ix) for each month of any taxable
17 year ending after 2003 and before 2005,
18 \$2,833.33¹/₃,

19 “(x) for each month of any taxable
20 year ending after 2004 and before 2006,
21 \$2,950.00,

22 “(xi) for each month of any taxable
23 year ending after 2005 and before 2007,
24 \$3,066.66²/₃,

1 “(xii) for each month of any taxable
 2 year ending after 2006 and before 2008,
 3 \$3,195.83 $\frac{1}{3}$, and

4 “(xiii) for each month of any taxable
 5 year ending after 2007 and before 2009,
 6 \$3,312.50.”.

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 203(f)(8)(B)(ii) of such Act (42
 9 U.S.C. 403(f)(8)(B)(ii)) is amended—

10 (A) by striking “after 2001 and before
 11 2003” and inserting “after 2007 and before
 12 2009”; and

13 (B) in subclause (II), by striking “2000”
 14 and inserting “2006”.

15 (2) The second sentence of section 223(d)(4)(A)
 16 of such Act (42 U.S.C. 423(d)(4)(A)) is amended by
 17 inserting “and section 121 of the Save Social Secu-
 18 rity and Taxpayer Relief Act of 1998” after “1996”.

19 (c) EFFECTIVE DATE.—The amendments made by
 20 this section shall apply with respect to taxable years end-
 21 ing after 1998.

1 **SEC. 122. RECOMPUTATION OF BENEFITS AFTER NORMAL**
2 **RETIREMENT AGE.**

3 (a) IN GENERAL.—Section 215(f)(2)(D)(i) of the So-
4 cial Security Act (42 U.S.C. 415(f)(2)(D)(i)) is amended
5 to read as follows:

6 “(i) in the case of an individual who did not die
7 in the year with respect to which the recomputation
8 is made, for monthly benefits beginning with bene-
9 fits for January of—

10 “(I) the second year following the year
11 with respect to which the recomputation is
12 made, in any such case in which the individual
13 is entitled to old-age insurance benefits, the in-
14 dividual has attained retirement age (as defined
15 in section 216(l)) as of the end of the year pre-
16 ceding the year with respect to which the re-
17 computation is made, and the year with respect
18 to which the recomputation is made would not
19 be substituted in recomputation under this sub-
20 section for a benefit computation year in which
21 no wages or self-employment income have been
22 credited previously to such individual, or

23 “(II) the first year following the year with
24 respect to which the recomputation is made, in
25 any other such case; or”.

26 (b) CONFORMING AMENDMENTS.—

1 (1) Section 215(f)(7) of such Act (42 U.S.C.
2 415(f)(7)) is amended by inserting “, and as
3 amended by section 122(b)(2) of the Save Social Se-
4 curity and Taxpayer Relief Act of 1998,” after
5 “‘This subsection as in effect in December 1978’”.

6 (2) Subparagraph (A) section 215(f)(2) of the
7 Social Security Act as in effect in December 1978
8 and applied in certain cases under the provisions of
9 such Act as in effect after December 1978 is amend-
10 ed—

11 (A) by striking “in the case of an individ-
12 ual who did not die” and all that follows and
13 inserting “in the case of an individual who did
14 not die in the year with respect to which the re-
15 computation is made, for monthly benefits be-
16 ginning with benefits for January of—”; and

17 (B) by adding at the end the following:

18 “(i) the second year following the year with
19 respect to which the recomputation is made, in
20 any such case in which the individual is entitled
21 to old-age insurance benefits, the individual has
22 attained age 65 as of the end of the year pre-
23 ceding the year with respect to which the re-
24 computation is made, and the year with respect
25 to which the recomputation is made would not

1 be substituted in recomputation under this sub-
 2 section for a benefit computation year in which
 3 no wages or self-employment income have been
 4 credited previously to such individual, or

5 “(ii) the first year following the year with
 6 respect to which the recomputation is made, in
 7 any other such case; or”.

8 (c) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply with respect to recomputations of
 10 primary insurance amounts based on wages paid and self
 11 employment income derived after 1997 and with respect
 12 to benefits payable after December 31, 1998.

13 **TITLE II—PROVISIONS PRIMARILY AFFECTING FARMING**
 14 **MARILY AFFECTING FARMING**
 15 **AND OTHER BUSINESSES**

16 **Subtitle A—Increase in Expense**
 17 **Treatment for Small Businesses**

18 **SEC. 201. INCREASE IN EXPENSE TREATMENT FOR SMALL**
 19 **BUSINESSES.**

20 (a) GENERAL RULE.—Paragraph (1) of section
 21 179(b) (relating to dollar limitation) is amended to read
 22 as follows:

23 “(1) DOLLAR LIMITATION.—The aggregate cost
 24 which may be taken into account under subsection
 25 (a) for any taxable year shall not exceed \$25,000.”

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to taxable years beginning after
3 December 31, 1998.

4 **Subtitle B—Provisions Relating to**
5 **Farmers**

6 **SEC. 211. INCOME AVERAGING FOR FARMERS MADE PER-**
7 **MANENT.**

8 Subsection (c) of section 933 of the Taxpayer Relief
9 Act of 1997 is amended by striking “, and before January
10 1, 2001”.

11 **SEC. 212. 5-YEAR NET OPERATING LOSS CARRYBACK FOR**
12 **FARMING LOSSES.**

13 (a) IN GENERAL.—Paragraph (1) of section 172(b)
14 (relating to net operating loss deduction) is amended by
15 adding at the end the following new subparagraph:

16 “(G) FARMING LOSSES.—In the case of a
17 taxpayer which has a farming loss (as defined
18 in subsection (i)) for a taxable year, such farm-
19 ing loss shall be a net operating loss carryback
20 to each of the 5 taxable years preceding the
21 taxable year of such loss.”

22 (b) FARMING LOSS.—Section 172 is amended by re-
23 designating subsection (i) as subsection (j) and by insert-
24 ing after subsection (h) the following new subsection:

1 “(i) RULES RELATING TO FARMING LOSSES.—For
2 purposes of this section—

3 “(1) IN GENERAL.—The term ‘farming loss’
4 means the lesser of—

5 “(A) the amount which would be the net
6 operating loss for the taxable year if only in-
7 come and deductions attributable to farming
8 businesses (as defined in section 263A(e)(4))
9 are taken into account, or

10 “(B) the amount of the net operating loss
11 for such taxable year.

12 “(2) COORDINATION WITH SUBSECTION
13 (B)(2).—For purposes of applying subsection (b)(2),
14 a farming loss for any taxable year shall be treated
15 in a manner similar to the manner in which a speci-
16 fied liability loss is treated.

17 “(3) ELECTION.—Any taxpayer entitled to a 5-
18 year carryback under subsection (b)(1)(G) from any
19 loss year may elect to have the carryback period
20 with respect to such loss year determined without re-
21 gard to subsection (b)(1)(G). Such election shall be
22 made in such manner as may be prescribed by the
23 Secretary and shall be made by the due date (includ-
24 ing extensions of time) for filing the taxpayer’s re-
25 turn for the taxable year of the net operating loss.

1 Such election, once made for any taxable year, shall
 2 be irrevocable for such taxable year.”

3 (c) COORDINATION WITH FARM DISASTER
 4 LOSSES.—Clause (ii) of section 172(b)(1)(F) is amended
 5 by adding at the end the following flush sentence:

6 “Such term shall not include any farming
 7 loss (as defined in subsection (i)).”

8 (d) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply to net operating losses for taxable
 10 years beginning after December 31, 1997.

11 **SEC. 213. PRODUCTION FLEXIBILITY CONTRACT PAY-**
 12 **MENTS.**

13 The option under section 112(d)(3) of the Federal
 14 Agriculture Improvement and Reform Act of 1996 (7
 15 U.S.C. 7212(d)(3)) shall be disregarded in determining
 16 the taxable year for which the payment for fiscal year
 17 1999 under a production flexibility contract under subtitle
 18 B of title I of such Act is properly includible in gross in-
 19 come for purposes of the Internal Revenue Code of 1986.

20 **Subtitle C—Increase in Volume**
 21 **Cap on Private Activity Bonds**

22 **SEC. 221. INCREASE IN VOLUME CAP ON PRIVATE ACTIVITY**
 23 **BONDS.**

24 (a) IN GENERAL.—Subsection (d) of section 146 (re-
 25 lating to volume cap) is amended by striking paragraph

1 (2), by redesignating paragraphs (3) and (4) as para-
 2 graphs (2) and (3), respectively, and by striking para-
 3 graph (1) and inserting the following new paragraph:

4 “(1) IN GENERAL.—The State ceiling applicable
 5 to any State for any calendar year shall be the
 6 greater of—

7 “(A) an amount equal to \$75 multiplied by
 8 the State population, or

9 “(B) \$225,000,000.

10 Subparagraph (B) shall not apply to any possession
 11 of the United States.”

12 (b) CONFORMING AMENDMENT.—Sections 25(f)(3)
 13 and 42(h)(3)(E)(iii) are each amended by striking “sec-
 14 tion 146(d)(3)(C)” and inserting “section 146(d)(2)(C)”.

15 (c) EFFECTIVE DATE.—The amendments made by
 16 this section shall apply to calendar years after 1998.

17 **TITLE III—EXTENSION AND**

18 **MODIFICATION OF CERTAIN**

19 **EXPIRING PROVISIONS**

20 **Subtitle A—Tax Provisions**

21 **SEC. 301. RESEARCH CREDIT.**

22 (a) TEMPORARY EXTENSION.—

23 (1) IN GENERAL.—Paragraph (1) of section
 24 41(h) (relating to termination) is amended—

1 (A) by striking “June 30, 1998” and in-
2 serting “February 29, 2000”,

3 (B) by striking “24-month” and inserting
4 “44-month”, and

5 (C) by striking “24 months” and inserting
6 “44 months”.

7 (2) TECHNICAL AMENDMENT.—Subparagraph
8 (D) of section 45C(b)(1) is amended by striking
9 “June 30, 1998” and inserting “February 29,
10 2000”.

11 (3) EFFECTIVE DATE.—The amendments made
12 by this subsection shall apply to amounts paid or in-
13 curred after June 30, 1998.

14 (b) INCREASE IN PERCENTAGES UNDER ALTER-
15 NATIVE INCREMENTAL CREDIT.—

16 (1) IN GENERAL.—Subparagraph (A) of section
17 41(c)(4) is amended—

18 (A) by striking “1.65 percent” and insert-
19 ing “2.65 percent”,

20 (B) by striking “2.2 percent” and inserting
21 “3.2 percent”, and

22 (C) by striking “2.75 percent” and insert-
23 ing “3.75 percent”.

1 (2) EFFECTIVE DATE.—The amendments made
2 by this subsection shall apply to taxable years begin-
3 ning after June 30, 1998.

4 **SEC. 302. WORK OPPORTUNITY CREDIT.**

5 (a) TEMPORARY EXTENSION.—Subparagraph (B) of
6 section 51(c)(4) (relating to termination) is amended by
7 striking “June 30, 1998” and inserting “February 29,
8 2000”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to individuals who begin work for
11 the employer after June 30, 1998.

12 **SEC. 303. WELFARE-TO-WORK CREDIT.**

13 Subsection (f) of section 51A (relating to termi-
14 nation) is amended by striking “April 30, 1999” and in-
15 serting “February 29, 2000”.

16 **SEC. 304. CONTRIBUTIONS OF STOCK TO PRIVATE FOUNDA-**
17 **TIONS; EXPANDED PUBLIC INSPECTION OF**
18 **PRIVATE FOUNDATIONS’ ANNUAL RETURNS.**

19 (a) SPECIAL RULE FOR CONTRIBUTIONS OF STOCK
20 MADE PERMANENT.—

21 (1) IN GENERAL.—Paragraph (5) of section
22 170(e) is amended by striking subparagraph (D)
23 (relating to termination).

1 (2) EFFECTIVE DATE.—The amendment made
2 by paragraph (1) shall apply to contributions made
3 after June 30, 1998.

4 (b) EXPANDED PUBLIC INSPECTION OF PRIVATE
5 FOUNDATIONS’ ANNUAL RETURNS, ETC.—

6 (1) IN GENERAL.—Section 6104 (relating to
7 publicity of information required from certain ex-
8 empt organizations and certain trusts) is amended
9 by striking subsections (d) and (e) and inserting
10 after subsection (c) the following new subsection:

11 “(d) PUBLIC INSPECTION OF CERTAIN ANNUAL RE-
12 TURNS AND APPLICATIONS FOR EXEMPTION.—

13 “(1) IN GENERAL.—In the case of an organiza-
14 tion described in subsection (c) or (d) of section 501
15 and exempt from taxation under section 501(a)—

16 “(A) a copy of—

17 “(i) the annual return filed under sec-
18 tion 6033 (relating to returns by exempt
19 organizations) by such organization, and

20 “(ii) if the organization filed an appli-
21 cation for recognition of exemption under
22 section 501, the exempt status application
23 materials of such organization,

24 shall be made available by such organization for
25 inspection during regular business hours by any

1 individual at the principal office of such organi-
2 zation and, if such organization regularly main-
3 tains 1 or more regional or district offices hav-
4 ing 3 or more employees, at each such regional
5 or district office, and

6 “(B) upon request of an individual made
7 at such principal office or such a regional or
8 district office, a copy of such annual return and
9 exempt status application materials shall be
10 provided to such individual without charge
11 other than a reasonable fee for any reproduc-
12 tion and mailing costs.

13 The request described in subparagraph (B) must be
14 made in person or in writing. If such request is
15 made in person, such copy shall be provided imme-
16 diately and, if made in writing, shall be provided
17 within 30 days.

18 “(2) 3-YEAR LIMITATION ON INSPECTION OF
19 RETURNS.—Paragraph (1) shall apply to an annual
20 return filed under section 6033 only during the 3-
21 year period beginning on the last day prescribed for
22 filing such return (determined with regard to any
23 extension of time for filing).

24 “(3) EXCEPTIONS FROM DISCLOSURE REQUIRE-
25 MENT.—

1 “(A) NONDISCLOSURE OF CONTRIBU-
2 TORS.—Paragraph (1) shall not require the dis-
3 closure of the name or address of any contribu-
4 tor to the organization.

5 “(B) NONDISCLOSURE OF CERTAIN OTHER
6 INFORMATION.—Paragraph (1) shall not re-
7 quire the disclosure of any information if the
8 Secretary withheld such information from pub-
9 lic inspection under subsection (a)(1)(D).

10 “(4) LIMITATION ON PROVIDING COPIES.—
11 Paragraph (1)(B) shall not apply to any request if,
12 in accordance with regulations promulgated by the
13 Secretary, the organization has made the requested
14 documents widely available, or the Secretary deter-
15 mines, upon application by an organization, that
16 such request is part of a harassment campaign and
17 that compliance with such request is not in the pub-
18 lic interest.

19 “(5) EXEMPT STATUS APPLICATION MATE-
20 RIALS.—For purposes of paragraph (1), the term
21 ‘exempt status applicable materials’ means the appli-
22 cation for recognition of exemption under section
23 501 and any papers submitted in support of such
24 application and any letter or other document issued

1 by the Internal Revenue Service with respect to such
2 application.”

3 (2) CONFORMING AMENDMENTS.—

4 (A) Subsection (c) of section 6033 is
5 amended by adding “and” at the end of para-
6 graph (1), by striking paragraph (2), and by re-
7 designating paragraph (3) as paragraph (2).

8 (B) Subparagraph (C) of section
9 6652(c)(1) is amended by striking “subsection
10 (d) or (e)(1) of section 6104 (relating to public
11 inspection of annual returns)” and inserting
12 “section 6104(d) with respect to any annual re-
13 turn”.

14 (C) Subparagraph (D) of section
15 6652(c)(1) is amended by striking “section
16 6104(e)(2) (relating to public inspection of ap-
17 plications for exemption)” and inserting “sec-
18 tion 6104(d) with respect to any exempt status
19 application materials (as defined in such sec-
20 tion)”.

21 (D) Section 6685 is amended by striking
22 “or (e)”.

23 (E) Section 7207 is amended by striking
24 “or (e)”.

1 (3) EFFECTIVE DATE.—The amendments made
 2 by this subsection shall apply to taxable years end-
 3 ing after December 31, 1998.

4 **SEC. 305. SUBPART F EXEMPTION FOR ACTIVE FINANCING**
 5 **INCOME.**

6 (a) INCOME DERIVED FROM BANKING, FINANCING
 7 OR SIMILAR BUSINESSES.—Section 954(h) (relating to in-
 8 come derived in the active conduct of banking, financing,
 9 or similar businesses) is amended to read as follows:

10 “(h) SPECIAL RULE FOR INCOME DERIVED IN THE
 11 ACTIVE CONDUCT OF BANKING, FINANCING, OR SIMILAR
 12 BUSINESSES.—

13 “(1) IN GENERAL.—For purposes of subsection
 14 (c)(1), foreign personal holding company income
 15 shall not include qualified banking or financing in-
 16 come of an eligible controlled foreign corporation.

17 “(2) ELIGIBLE CONTROLLED FOREIGN COR-
 18 PORATION.—For purposes of this subsection—

19 “(A) IN GENERAL.—The term ‘eligible con-
 20 trolled foreign corporation’ means a controlled
 21 foreign corporation which—

22 “(i) is predominantly engaged in the
 23 active conduct of a banking, financing, or
 24 similar business, and

1 “(ii) conducts substantial activity with
2 respect to such business.

3 “(B) PREDOMINANTLY ENGAGED.—A con-
4 trolled foreign corporation shall be treated as
5 predominantly engaged in the active conduct of
6 a banking, financing, or similar business if—

7 “(i) more than 70 percent of the gross
8 income of the controlled foreign corpora-
9 tion is derived directly from the active and
10 regular conduct of a lending or finance
11 business from transactions with customers
12 which are not related persons, or

13 “(ii) it is engaged in the active con-
14 duct of a banking business and is an insti-
15 tution licensed to do business as a bank in
16 the United States (or is any other corpora-
17 tion not so licensed which is specified by
18 the Secretary in regulations).

19 “(3) QUALIFIED BANKING OR FINANCING IN-
20 COME.—For purposes of this subsection—

21 “(A) IN GENERAL.—The term ‘qualified
22 banking or financing income’ means income of
23 an eligible controlled foreign corporation
24 which—

1 “(i) is derived in the active conduct of
2 a banking, financing, or similar business
3 by—

4 “(I) such eligible controlled for-
5 eign corporation, or

6 “(II) a qualified business unit of
7 such eligible controlled foreign cor-
8 poration,

9 “(ii) is derived from 1 or more trans-
10 actions—

11 “(I) with customers located in a
12 country other than the United States,
13 and

14 “(II) substantially all of the ac-
15 tivities in connection with which are
16 conducted directly by the corporation
17 or unit in its home country, and

18 “(iii) is treated as earned by such cor-
19 poration or unit in its home country for
20 purposes of such country’s tax laws.

21 “(B) LIMITATION ON NONBANKING BUSI-
22 NESSES.—No income of an eligible controlled
23 foreign corporation not described in paragraph
24 (2)(B)(ii) (or of a qualified business unit of
25 such corporation) shall be treated as qualified

1 banking or financing income unless more than
2 30 percent of such corporation's or unit's gross
3 income is derived directly from the active and
4 regular conduct of a lending or finance business
5 from transactions with customers which are not
6 related persons and which are located within
7 such corporation's or unit's home country.

8 “(C) SUBSTANTIAL ACTIVITY REQUIRE-
9 MENT FOR CROSS BORDER INCOME.—The term
10 ‘qualified banking or financing income’ shall
11 not include income derived from 1 or more
12 transactions with customers located in a coun-
13 try other than the home country of the eligible
14 controlled foreign corporation or a qualified
15 business unit of such corporation unless such
16 corporation or unit conducts substantial activity
17 with respect to a banking, financing, or similar
18 business in its home country.

19 “(D) DETERMINATIONS MADE SEPA-
20 RATELY.—For purposes of this paragraph, the
21 qualified banking or financing income of an eli-
22 gible controlled foreign corporation and each
23 qualified business unit of such corporation shall
24 be determined separately for such corporation
25 and each such unit by taking into account—

1 “(i) in the case of the eligible con-
2 trolled foreign corporation, only items of
3 income, deduction, gain, or loss and activi-
4 ties of such corporation not properly allo-
5 cable or attributable to any qualified busi-
6 ness unit of such corporation, and

7 “(ii) in the case of a qualified busi-
8 ness unit, only items of income, deduction,
9 gain, or loss and activities properly alloca-
10 ble or attributable to such unit.

11 “(4) LENDING OR FINANCE BUSINESS.—For
12 purposes of this subsection, the term ‘lending or fi-
13 nance business’ means the business of—

14 “(A) making loans,

15 “(B) purchasing or discounting accounts
16 receivable, notes, or installment obligations,

17 “(C) engaging in leasing (including enter-
18 ing into leases and purchasing, servicing, and
19 disposing of leases and leased assets),

20 “(D) issuing letters of credit or providing
21 guarantees,

22 “(E) providing charge and credit card
23 services, or

24 “(F) rendering services or making facilities
25 available in connection with activities described

1 in subparagraphs (A) through (E) carried on
2 by—

3 “(i) the corporation (or qualified busi-
4 ness unit) rendering services or making fa-
5 cilities available, or

6 “(ii) another corporation (or qualified
7 business unit of a corporation) which is a
8 member of the same affiliated group (as
9 defined in section 1504, but determined
10 without regard to section 1504(b)(3)).

11 “(5) OTHER DEFINITIONS.—For purposes of
12 this subsection—

13 “(A) CUSTOMER.—The term ‘customer’
14 means, with respect to any controlled foreign
15 corporation or qualified business unit, any per-
16 son which has a customer relationship with
17 such corporation or unit and which is acting in
18 its capacity as such.

19 “(B) HOME COUNTRY.—Except as pro-
20 vided in regulations—

21 “(i) CONTROLLED FOREIGN CORPORA-
22 TION.—The term ‘home country’ means,
23 with respect to any controlled foreign cor-
24 poration, the country under the laws of

1 which the corporation was created or orga-
2 nized.

3 “(ii) QUALIFIED BUSINESS UNIT.—

4 The term ‘home country’ means, with re-
5 spect to any qualified business unit, the
6 country in which such unit maintains its
7 principal office.

8 “(C) LOCATED.—The determination of
9 where a customer is located shall be made
10 under rules prescribed by the Secretary.

11 “(D) QUALIFIED BUSINESS UNIT.—The
12 term ‘qualified business unit’ has the meaning
13 given such term by section 989(a).

14 “(E) RELATED PERSON.—The term ‘relat-
15 ed person’ has the meaning given such term by
16 subsection (d)(3).

17 “(6) ANTI-ABUSE RULES.—For purposes of ap-
18 plying this subsection and subsection (c)(2)(C)(ii)—

19 “(A) there shall be disregarded any item of
20 income, gain, loss, or deduction with respect to
21 any transaction or series of transactions one of
22 the principal purposes of which is qualifying in-
23 come or gain for the exclusion under this sec-
24 tion, including any transaction or series of
25 transactions a principal purpose of which is the

1 acceleration or deferral of any item in order to
2 claim the benefits of such exclusion through the
3 application of this subsection,

4 “(B) there shall be disregarded any item of
5 income, gain, loss, or deduction of, or derived
6 from, an entity which is not engaged in regular
7 and continuous transactions with persons which
8 are not related persons,

9 “(C) there shall be disregarded any item of
10 income, gain, loss, or deduction with respect to
11 any transaction or series of transactions utiliz-
12 ing, or doing business with—

13 “(i) one or more entities in order to
14 satisfy any home country requirement
15 under this subsection, or

16 “(ii) a special purpose entity or ar-
17 rangement, including a securitization, fi-
18 nancing, or similar entity or arrangement,
19 if one of the principal purposes of such trans-
20 action or series of transactions is qualifying in-
21 come or gain for the exclusion under this sec-
22 tion, and

23 “(D) a related person, an officer, a direc-
24 tor, or an employee with respect to any con-
25 trolled foreign corporation (or qualified business

1 unit) which would otherwise be treated as a
 2 customer of such corporation or unit with re-
 3 spect to any transaction shall not be so treated
 4 if a principal purpose of such transaction is to
 5 satisfy any requirement of this subsection.

6 “(7) REGULATIONS.—The Secretary shall pre-
 7 scribe such regulations as may be necessary or ap-
 8 propriate to carry out the purposes of this sub-
 9 section, subsection (c)(1)(B)(i), subsection
 10 (c)(2)(C)(ii), and the last sentence of subsection
 11 (e)(2).

12 “(8) APPLICATION.—This subsection, sub-
 13 section (c)(2)(C)(ii), and the last sentence of sub-
 14 section (e)(2) shall apply only to the first taxable
 15 year of a foreign corporation beginning after Decem-
 16 ber 31, 1998, and before January 1, 2000, and to
 17 taxable years of United States shareholders with or
 18 within which such taxable year of such foreign cor-
 19 poration ends.”

20 (b) INCOME DERIVED FROM INSURANCE BUSI-
 21 NESS.—

22 (1) INCOME ATTRIBUTABLE TO ISSUANCE OR
 23 REINSURANCE.—

1 (A) IN GENERAL.—Section 953(a) (defin-
 2 ing insurance income) is amended to read as
 3 follows:

4 “(a) INSURANCE INCOME.—

5 “(1) IN GENERAL.—For purposes of section
 6 952(a)(1), the term ‘insurance income’ means any
 7 income which—

8 “(A) is attributable to the issuing (or rein-
 9 suring) of an insurance or annuity contract,
 10 and

11 “(B) would (subject to the modifications
 12 provided by subsection (b)) be taxed under sub-
 13 chapter L of this chapter if such income were
 14 the income of a domestic insurance company.

15 “(2) EXCEPTION.—Such term shall not include
 16 any exempt insurance income (as defined in sub-
 17 section (e)).”

18 (B) EXEMPT INSURANCE INCOME.—Sec-
 19 tion 953 (relating to insurance income) is
 20 amended by adding at the end the following
 21 new subsection:

22 “(e) EXEMPT INSURANCE INCOME.—For purposes of
 23 this section—

24 “(1) EXEMPT INSURANCE INCOME DEFINED.—

1 “(A) IN GENERAL.—The term ‘exempt in-
2 surance income’ means income derived by a
3 qualifying insurance company which—

4 “(i) is attributable to the issuing (or
5 reinsuring) of an exempt contract by such
6 company or a qualifying insurance com-
7 pany branch of such company, and

8 “(ii) is treated as earned by such com-
9 pany or branch in its home country for
10 purposes of such country’s tax laws.

11 “(B) EXCEPTION FOR CERTAIN ARRANGE-
12 MENTS.—Such term shall not include income
13 attributable to the issuing (or reinsuring) of an
14 exempt contract as the result of any arrange-
15 ment whereby another corporation receives a
16 substantially equal amount of premiums or
17 other consideration in respect of issuing (or re-
18 insuring) a contract which is not an exempt
19 contract.

20 “(C) DETERMINATIONS MADE SEPA-
21 RATELY.—For purposes of this subsection and
22 section 954(i), the exempt insurance income
23 and exempt contracts of a qualifying insurance
24 company or any qualifying insurance company
25 branch of such company shall be determined

1 separately for such company and each such
2 branch by taking into account—

3 “(i) in the case of the qualifying in-
4 surance company, only items of income, de-
5 duction, gain, or loss, and activities of such
6 company not properly allocable or attrib-
7 utable to any qualifying insurance com-
8 pany branch of such company, and

9 “(ii) in the case of a qualifying insur-
10 ance company branch, only items of in-
11 come, deduction, gain, or loss and activities
12 properly allocable or attributable to such
13 unit.

14 “(2) EXEMPT CONTRACT.—

15 “(A) IN GENERAL.—The term ‘exempt
16 contract’ means an insurance or annuity con-
17 tract issued or reinsured by a qualifying insur-
18 ance company or qualifying insurance company
19 branch in connection with property in, liability
20 arising out of activity in, or the lives or health
21 of residents of, a country other than the United
22 States.

23 “(B) MINIMUM HOME COUNTRY INCOME
24 REQUIRED.—

1 “(i) IN GENERAL.—No contract of a
2 qualifying insurance company or of a
3 qualifying insurance company branch shall
4 be treated as an exempt contract unless
5 such company or branch derives more than
6 30 percent of its net written premiums
7 from exempt contracts (determined without
8 regard to this subparagraph)—

9 “(I) which cover applicable home
10 country risks, and

11 “(II) with respect to which no
12 policyholder, insured, annuitant, or
13 beneficiary is a related person (as de-
14 fined in section 954(d)(3)).

15 “(ii) APPLICABLE HOME COUNTRY
16 RISKS.—The term ‘applicable home coun-
17 try risks’ means risks in connection with
18 property in, liability arising out of activity
19 in, or the lives or health of residents of,
20 the home country of the qualifying insur-
21 ance company or qualifying insurance com-
22 pany branch, as the case may be, issuing
23 or reinsuring the contract covering the
24 risks.

1 “(C) SUBSTANTIAL ACTIVITY REQUIRE-
2 MENTS FOR CROSS BORDER RISKS.—A contract
3 issued by a qualifying insurance company or
4 qualifying insurance company branch which
5 covers risks other than applicable home country
6 risks (as defined in subparagraph (B)(ii)) shall
7 not be treated as an exempt contract unless
8 such company or branch, as the case may be—

9 “(i) conducts substantial activity with
10 respect to an insurance business in its
11 home country, and

12 “(ii) performs in its home country
13 substantially all of the activities necessary
14 to give rise to the income generated by
15 such contract.

16 “(3) QUALIFYING INSURANCE COMPANY.—The
17 term ‘qualifying insurance company’ means any con-
18 trolled foreign corporation which—

19 “(A) is subject to regulation as an insur-
20 ance (or reinsurance) company by its home
21 country, and is licensed, authorized, or regu-
22 lated by the applicable insurance regulatory
23 body for its home country to sell insurance, re-
24 insurance, or annuity contracts to persons other

1 than related persons (within the meaning of
2 section 954(d)(3)) in such home country,

3 “(B) derives more than 50 percent of its
4 aggregate net written premiums from the
5 issuance or reinsurance by such controlled for-
6 eign corporation and each of its qualifying in-
7 surance company branches of contracts—

8 “(i) covering applicable home country
9 risks (as defined in paragraph (2)) of such
10 corporation or branch, as the case may be,
11 and

12 “(ii) with respect to which no policy-
13 holder, insured, annuitant, or beneficiary is
14 a related person (as defined in section
15 954(d)(3)),

16 except that in the case of a branch, such pre-
17 miums shall only be taken into account to the
18 extent such premiums are treated as earned by
19 such branch in its home country for purposes of
20 such country’s tax laws, and

21 “(C) is engaged in the insurance business
22 and would be subject to tax under subchapter
23 L if it were a domestic corporation.

24 “(4) QUALIFYING INSURANCE COMPANY
25 BRANCH.—The term ‘qualifying insurance company

1 branch’ means a qualified business unit (within the
2 meaning of section 989(a)) of a controlled foreign
3 corporation if—

4 “(A) such unit is licensed, authorized, or
5 regulated by the applicable insurance regulatory
6 body for its home country to sell insurance, re-
7 insurance, or annuity contracts to persons other
8 than related persons (within the meaning of
9 section 954(d)(3)) in such home country, and

10 “(B) such controlled foreign corporation is
11 a qualifying insurance company, determined
12 under paragraph (3) as if such unit were a
13 qualifying insurance company branch.

14 “(5) LIFE INSURANCE OR ANNUITY CON-
15 TRACT.—For purposes of this section and section
16 954, the determination of whether a contract issued
17 by a controlled foreign corporation or a qualified
18 business unit (within the meaning of section 989(a))
19 is a life insurance contract or an annuity contract
20 shall be made without regard to sections 72(s),
21 101(f), 817(h), and 7702 if—

22 “(A) such contract is regulated as a life in-
23 surance or annuity contract by the corpora-
24 tion’s or unit’s home country, and

1 “(B) no policyholder, insured, annuitant,
2 or beneficiary with respect to the contract is a
3 United States person.

4 “(6) HOME COUNTRY.—For purposes of this
5 subsection, except as provided in regulations—

6 “(A) CONTROLLED FOREIGN CORPORA-
7 TION.—The term ‘home country’ means, with
8 respect to a controlled foreign corporation, the
9 country in which such corporation is created or
10 organized.

11 “(B) QUALIFIED BUSINESS UNIT.—The
12 term ‘home country’ means, with respect to a
13 qualified business unit (as defined in section
14 989(a)), the country in which the principal of-
15 fice of such unit is located and in which such
16 unit is licensed, authorized, or regulated by the
17 applicable insurance regulatory body to sell in-
18 surance, reinsurance, or annuity contracts to
19 persons other than related persons (as defined
20 in section 954(d)(3)) in such country.

21 “(7) ANTI-ABUSE RULES.—For purposes of ap-
22 plying this subsection and section 954(i)—

23 “(A) the rules of section 954(h)(6) shall
24 apply,

1 “(B) there shall be disregarded any change
2 in the method of computing reserves a principal
3 purpose of which is the acceleration or deferral
4 of any item in order to claim the benefits of
5 this subsection or section 954(i),

6 “(C) a contract of insurance or reinsur-
7 ance shall not be treated as an exempt contract
8 (and premiums from such contract shall not be
9 taken into account for purposes of paragraph
10 (2)(B) or (3)) if—

11 “(i) any policyholder, insured, annu-
12 itant, or beneficiary is a resident of the
13 United States and such contract was mar-
14 keted to such resident and was written to
15 cover a risk outside the United States, or

16 “(ii) the contract covers risks located
17 within and without the United States and
18 the qualifying insurance company or quali-
19 fying insurance company branch does not
20 maintain such contemporaneous records,
21 and file such reports, with respect to such
22 contract as the Secretary may require,

23 “(D) the Secretary may prescribe rules for
24 the allocation of contracts (and income from
25 contracts) among 2 or more qualifying insur-

1 ance company branches of a qualifying insur-
 2 ance company in order to clearly reflect the in-
 3 come of such branches, and

4 “(E) premiums from a contract shall not
 5 be taken into account for purposes of para-
 6 graph (2)(B) or (3) if such contract reinsures
 7 a contract issued or reinsured by a related per-
 8 son (as defined in section 954(d)(3)).

9 For purposes of subparagraph (C), the determina-
 10 tion of where risks are located shall be made under
 11 the principles of section 953.

12 “(8) COORDINATION WITH SUBSECTION (c).—
 13 In determining insurance income for purposes of
 14 subsection (c), exempt insurance income shall not in-
 15 clude income derived from exempt contracts which
 16 cover risks other than applicable home country risks.

17 “(9) REGULATIONS.—The Secretary shall pre-
 18 scribe such regulations as may be necessary or ap-
 19 propriate to carry out the purposes of this sub-
 20 section and section 954(i).

21 “(10) APPLICATION.—This subsection and sec-
 22 tion 954(i) shall apply only to the first taxable year
 23 of a foreign corporation beginning after December
 24 31, 1998, and before January 1, 2000, and to tax-
 25 able years of United States shareholders with or

1 within which such taxable year of such foreign cor-
 2 poration ends.

3 “(11) CROSS REFERENCE.—

“**For income exempt from foreign personal hold-
 ing company income, see section 954(i).**”

4 (2) EXEMPTION FROM FOREIGN PERSONAL
 5 HOLDING COMPANY INCOME.—Section 954 (defining
 6 foreign base company income) is amended by adding
 7 at the end the following new subsection:

8 “(i) SPECIAL RULE FOR INCOME DERIVED IN THE
 9 ACTIVE CONDUCT OF INSURANCE BUSINESS.—

10 “(1) IN GENERAL.—For purposes of subsection
 11 (c)(1), foreign personal holding company income
 12 shall not include qualified insurance income of a
 13 qualifying insurance company.

14 “(2) QUALIFIED INSURANCE INCOME.—The
 15 term ‘qualified insurance income’ means income of a
 16 qualifying insurance company which is—

17 “(A) received from a person other than a
 18 related person (within the meaning of sub-
 19 section (d)(3)) and derived from the invest-
 20 ments made by a qualifying insurance company
 21 or a qualifying insurance company branch of its
 22 reserves allocable to exempt contracts or of 80
 23 percent of its unearned premiums from exempt

1 contracts (as both are determined in the man-
 2 ner prescribed under paragraph (4)), or

3 “(B) received from a person other than a
 4 related person (within the meaning of sub-
 5 section (d)(3)) and derived from investments
 6 made by a qualifying insurance company or a
 7 qualifying insurance company branch of an
 8 amount of its assets allocable to exempt con-
 9 tracts equal to—

10 “(i) in the case of property, casualty,
 11 or health insurance contracts, one-third of
 12 its premiums earned on such insurance
 13 contracts during the taxable year (as de-
 14 fined in section 832(b)(4)), and

15 “(ii) in the case of life insurance or
 16 annuity contracts, 10 percent of the re-
 17 serves described in subparagraph (A) for
 18 such contracts.

19 “(3) PRINCIPLES FOR DETERMINING INSUR-
 20 ANCE INCOME.—Except as provided by the Sec-
 21 retary, for purposes of subparagraphs (A) and (B)
 22 of paragraph (2)—

23 “(A) in the case of any contract which is
 24 a separate account-type contract (including any
 25 variable contract not meeting the requirements

1 of section 817), income credited under such
 2 contract shall be allocable only to such contract,
 3 and

4 “(B) income not allocable under subpara-
 5 graph (A) shall be allocated ratably among con-
 6 tracts not described in subparagraph (A).

7 “(4) METHODS FOR DETERMINING UNEARNED
 8 PREMIUMS AND RESERVES.—For purposes of para-
 9 graph (2)(A)—

10 “(A) PROPERTY AND CASUALTY CON-
 11 TRACTS.—The unearned premiums and reserves
 12 of a qualifying insurance company or a qualify-
 13 ing insurance company branch with respect to
 14 property, casualty, or health insurance con-
 15 tracts shall be determined using the same meth-
 16 ods and interest rates which would be used if
 17 such company or branch were subject to tax
 18 under subchapter L, except that—

19 “(i) the interest rate determined for
 20 the functional currency of the company or
 21 branch, and which, except as provided by
 22 the Secretary, is calculated in the same
 23 manner as the Federal mid-term rate
 24 under section 1274(d), shall be substituted

1 for the applicable Federal interest rate,
2 and

3 “(ii) such company or branch shall
4 use the appropriate foreign loss payment
5 pattern.

6 “(B) LIFE INSURANCE AND ANNUITY CON-
7 TRACTS.—The amount of the reserve of a quali-
8 fying insurance company or qualifying insur-
9 ance company branch for any life insurance or
10 annuity contract shall be equal to the greater
11 of—

12 “(i) the net surrender value of such
13 contract (as defined in section
14 807(e)(1)(A)), or

15 “(ii) the reserve determined under
16 paragraph (5).

17 “(C) LIMITATION ON RESERVES.—In no
18 event shall the reserve determined under this
19 paragraph for any contract as of any time ex-
20 ceed the amount which would be taken into ac-
21 count with respect to such contract as of such
22 time in determining foreign statement reserves
23 (less any catastrophe, deficiency, equalization,
24 or similar reserves).

1 “(5) AMOUNT OF RESERVE.—The amount of
2 the reserve determined under this paragraph with
3 respect to any contract shall be determined in the
4 same manner as it would be determined if the quali-
5 fying insurance company or qualifying insurance
6 company branch were subject to tax under sub-
7 chapter L, except that in applying such sub-
8 chapter—

9 “(A) the interest rate determined for the
10 functional currency of the company or branch,
11 and which, except as provided by the Secretary,
12 is calculated in the same manner as the Federal
13 mid-term rate under section 1274(d), shall be
14 substituted for the applicable Federal interest
15 rate,

16 “(B) the highest assumed interest rate
17 permitted to be used in determining foreign
18 statement reserves shall be substituted for the
19 prevailing State assumed interest rate, and

20 “(C) tables for mortality and morbidity
21 which reasonably reflect the current mortality
22 and morbidity risks in the company’s or
23 branch’s home country shall be substituted for
24 the mortality and morbidity tables otherwise
25 used for such subchapter.

1 The Secretary may provide that the interest rate
2 and mortality and morbidity tables of a qualifying
3 insurance company may be used for 1 or more of its
4 qualifying insurance company branches when appro-
5 priate.

6 “(6) DEFINITIONS.—For purposes of this sub-
7 section, any term used in this subsection which is
8 also used in section 953(e) shall have the meaning
9 given such term by section 953.”

10 (3) RESERVES.—Section 953(b) is amended by
11 redesignating paragraph (3) as paragraph (4) and
12 by inserting after paragraph (2) the following new
13 paragraph:

14 “(3) Reserves for any insurance or annuity con-
15 tract shall be determined in the same manner as
16 under section 954(i).”

17 (c) SPECIAL RULES FOR DEALERS.—Section
18 954(c)(2)(C) is amended to read as follows:

19 “(C) EXCEPTION FOR DEALERS.—Except
20 as provided by regulations, in the case of a reg-
21 ular dealer in property which is property de-
22 scribed in paragraph (1)(B), forward contracts,
23 option contracts, or similar financial instru-
24 ments (including notional principal contracts
25 and all instruments referenced to commodities),

1 there shall not be taken into account in comput-
2 ing foreign personal holding company income—

3 “(i) any item of income, gain, deduc-
4 tion, or loss (other than any item described
5 in subparagraph (A), (E), or (G) of para-
6 graph (1)) from any transaction (including
7 hedging transactions) entered into in the
8 ordinary course of such dealer’s trade or
9 business as such a dealer, and

10 “(ii) if such dealer is a dealer in secu-
11 rities (within the meaning of section 475),
12 any interest or dividend or equivalent
13 amount described in subparagraph (E) or
14 (G) of paragraph (1) from any transaction
15 (including any hedging transaction or
16 transaction described in section
17 956(c)(2)(J)) entered into in the ordinary
18 course of such dealer’s trade or business as
19 such a dealer in securities, but only if the
20 income from the transaction is attributable
21 to activities of the dealer in the country
22 under the laws of which the dealer is cre-
23 ated or organized (or in the case of a
24 qualified business unit described in section
25 989(a), is attributable to activities of the

1 unit in the country in which the unit both
 2 maintains its principal office and conducts
 3 substantial business activity).”

4 (d) EXEMPTION FROM FOREIGN BASE COMPANY
 5 SERVICES INCOME.—Paragraph (2) of section 954(e) is
 6 amended by inserting “or” at the end of subparagraph
 7 (A), by striking “; or” at the end of subparagraph (B)
 8 and inserting a period, by striking subparagraph (C), and
 9 by adding at the end the following new flush sentence:
 10 “Paragraph (1) shall also not apply to income which is
 11 exempt insurance income (as defined in section 953(e))
 12 or which is not treated as foreign personal holding income
 13 by reason of subsection (c)(2)(C)(ii), (h), or (i).”

14 (e) EXEMPTION FOR GAIN.—Section 954(c)(1)(B)(i)
 15 (relating to net gains from certain property transactions)
 16 is amended by inserting “other than property which gives
 17 rise to income not treated as foreign personal holding com-
 18 pany income by reason of subsection (h) or (i) for the tax-
 19 able year” before the comma at the end.

20 **Subtitle B—Generalized System of** 21 **Preferences**

22 **SEC. 311. EXTENSION OF GENERALIZED SYSTEM OF PREF-** 23 **ERENCES.**

24 (a) EXTENSION OF DUTY-FREE TREATMENT UNDER
 25 SYSTEM.—Section 505 of the Trade Act of 1974 (29

1 U.S.C. 2465) is amended by striking “June 30, 1998” and
2 inserting “February 29, 2000”.

3 (b) RETROACTIVE APPLICATION FOR CERTAIN LIQ-
4 UIDATIONS AND RELIQUIDATIONS.—

5 (1) IN GENERAL.—Notwithstanding section 514
6 of the Tariff Act of 1930 or any other provision of
7 law, and subject to paragraph (2), any entry—

8 (A) of an article to which duty-free treat-
9 ment under title V of the Trade Act of 1974
10 would have applied if such title had been in ef-
11 fect during the period beginning on July 1,
12 1998, and ending on the day before the date of
13 the enactment of this Act, and

14 (B) that was made after June 30, 1998,
15 and before the date of the enactment of this
16 Act,

17 shall be liquidated or reliquidated as free of duty,
18 and the Secretary of the Treasury shall refund any
19 duty paid with respect to such entry. As used in this
20 subsection, the term “entry” includes a withdrawal
21 from warehouse for consumption.

22 (2) REQUESTS.—Liquidation or reliquidation
23 may be made under paragraph (1) with respect to
24 an entry only if a request therefor is filed with the
25 Customs Service, within 180 days after the date of

1 the enactment of this Act, that contains sufficient
 2 information to enable the Customs Service—

3 (A) to locate the entry; or

4 (B) to reconstruct the entry if it cannot be
 5 located.

6 **TITLE IV—REVENUE OFFSET**

7 **SEC. 401. TREATMENT OF CERTAIN DEDUCTIBLE LIQUIDAT-** 8 **ING DISTRIBUTIONS OF REGULATED INVEST-** 9 **MENT COMPANIES AND REAL ESTATE IN-** 10 **VESTMENT TRUSTS.**

11 (a) IN GENERAL.—Section 332 (relating to complete
 12 liquidations of subsidiaries) is amended by adding at the
 13 end the following new subsection:

14 “(c) DEDUCTIBLE LIQUIDATING DISTRIBUTIONS OF
 15 REGULATED INVESTMENT COMPANIES AND REAL ES-
 16 TATE INVESTMENT TRUSTS.—If a corporation receives a
 17 distribution from a regulated investment company or a
 18 real estate investment trust which is considered under sub-
 19 section (b) as being in complete liquidation of such com-
 20 pany or trust, then, notwithstanding any other provision
 21 of this chapter, such corporation shall recognize and treat
 22 as a dividend from such company or trust an amount
 23 equal to the deduction for dividends paid allowable to such
 24 company or trust by reason of such distribution.”.

25 (b) CONFORMING AMENDMENTS.—

1 (1) The material preceding paragraph (1) of
2 section 332(b) is amended by striking “subsection
3 (a)” and inserting “this section”.

4 (2) Paragraph (1) of section 334(b) is amended
5 by striking “section 332(a)” and inserting “section
6 332”.

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to distributions after May 21,
9 1998.

10 **TITLE V—TECHNICAL** 11 **CORRECTIONS**

12 **SEC. 501. DEFINITIONS; COORDINATION WITH OTHER TI-** 13 **TLES.**

14 (a) DEFINITIONS.—For purposes of this title—

15 (1) 1986 CODE.—The term “1986 Code”
16 means the Internal Revenue Code of 1986.

17 (2) 1998 ACT.—The term “1998 Act” means
18 the Internal Revenue Service Restructuring and Re-
19 form Act of 1998 (Public Law 105–206).

20 (3) 1997 ACT.—The term “1997 Act” means
21 the Taxpayer Relief Act of 1997 (Public Law 105–
22 34).

23 (b) COORDINATION WITH OTHER TITLES.—For pur-
24 poses of applying the amendments made by any title of
25 this Act other than this title, the provisions of this title

1 shall be treated as having been enacted immediately before
2 the provisions of such other titles.

3 **SEC. 502. AMENDMENTS RELATED TO INTERNAL REVENUE**
4 **SERVICE RESTRUCTURING AND REFORM ACT**
5 **OF 1998.**

6 (a) AMENDMENT RELATED TO SECTION 1101 OF
7 1998 ACT.—Paragraph (5) of section 6103(h) of the 1986
8 Code, as added by section 1101(b) of the 1998 Act, is
9 redesignated as paragraph (6).

10 (b) AMENDMENT RELATED TO SECTION 3001 OF
11 1998 ACT.—Paragraph (2) of section 7491(a) of the 1986
12 Code is amended by adding at the end the following flush
13 sentence:

14 “Subparagraph (C) shall not apply to any qualified
15 revocable trust (as defined in section 645(b)(1)) with
16 respect to liability for tax for any taxable year end-
17 ing after the date of the decedent’s death and before
18 the applicable date (as defined in section
19 645(b)(2)).”.

20 (c) AMENDMENTS RELATED TO SECTION 3201 OF
21 1998 ACT.—

22 (1) Section 7421(a) of the 1986 Code is amend-
23 ed by striking “6015(d)” and inserting “6015(e)”.

1 (2) Subparagraph (A) of section 6015(e)(3) is
2 amended by striking “of this section” and inserting
3 “of subsection (b) or (f)”.

4 (d) AMENDMENT RELATED TO SECTION 3301 OF
5 1998 ACT.—Paragraph (2) of section 3301(c) of the 1998
6 Act is amended by striking “The amendments” and insert-
7 ing “Subject to any applicable statute of limitation not
8 having expired with regard to either a tax underpayment
9 or a tax overpayment, the amendments”.

10 (e) AMENDMENT RELATED TO SECTION 3401 OF
11 1998 ACT.—Section 3401(c) of the 1998 Act is amend-
12 ed—

13 (1) in paragraph (1), by striking “7443(b)”
14 and inserting “7443A(b)”; and

15 (2) in paragraph (2), by striking “7443(c)” and
16 inserting “7443A(c)”.

17 (f) AMENDMENT RELATED TO SECTION 3433 OF
18 1998 ACT.—Section 7421(a) of the 1986 Code is amended
19 by inserting “6331(i),” after “6246(b),”.

20 (g) AMENDMENT RELATED TO SECTION 3708 OF
21 1998 ACT.—Subparagraph (A) of section 6103(p)(3) of
22 the 1986 Code is amended by inserting “(f)(5),” after
23 “(c), (e),”.

24 (h) AMENDMENT RELATED TO SECTION 5001 OF
25 1998 ACT.—

1 (1) Subparagraph (B) of section 1(h)(13) of the
2 1986 Code is amended by striking “paragraph
3 (7)(A)” and inserting “paragraph (7)(A)(i)”.

4 (2)(A) Subparagraphs (A)(i)(II), (A)(ii)(II),
5 and (B)(ii) of section 1(h)(13) of the 1986 Code
6 shall not apply to any distribution after December
7 31, 1997, by a regulated investment company or a
8 real estate investment trust with respect to—

9 (i) gains and losses recognized directly by
10 such company or trust, and

11 (ii) amounts properly taken into account
12 by such company or trust by reason of holding
13 (directly or indirectly) an interest in another
14 such company or trust to the extent that such
15 subparagraphs did not apply to such other com-
16 pany or trust with respect to such amounts.

17 (B) Subparagraph (A) shall not apply to any
18 distribution which is treated under section 852(b)(7)
19 or 857(b)(8) of the 1986 Code as received on De-
20 cember 31, 1997.

21 (C) For purposes of subparagraph (A), any
22 amount which is includible in gross income of its
23 shareholders under section 852(b)(3)(D) or
24 857(b)(3)(D) of the 1986 Code after December 31,
25 1997, shall be treated as distributed after such date.

1 (i) EFFECTIVE DATE.—The amendments made by
2 this section shall take effect as if included in the provisions
3 of the 1998 Act to which they relate.

4 **SEC. 503. AMENDMENTS RELATED TO TAXPAYER RELIEF**
5 **ACT OF 1997.**

6 (a) AMENDMENT RELATED TO SECTION 202 OF 1997
7 ACT.—Paragraph (2) of section 163(h) of the 1986 Code
8 is amended by striking “and” at the end of subparagraph
9 (D), by striking the period at the end of subparagraph
10 (E) and inserting “, and”, and by adding at the end the
11 following new subparagraph:

12 “(F) any interest allowable as a deduction
13 under section 221 (relating to interest on edu-
14 cational loans).”

15 (b) PROVISION RELATED TO SECTION 311 OF 1997
16 ACT.—In the case of any capital gain distribution made
17 after 1997 by a trust to which section 664 of the 1986
18 Code applies with respect to amounts properly taken into
19 account by such trust during 1997, paragraphs
20 (5)(A)(i)(I), (5)(A)(ii)(I), and (13)(A) of section 1(h) of
21 the 1986 Code (as in effect for taxable years ending on
22 December 31, 1997) shall not apply.

23 (c) AMENDMENT RELATED TO SECTION 506 OF 1997
24 ACT.—

1 (1) Section 2001(f)(2) of the 1986 Code is
2 amended by adding at the end the following:

3 “For purposes of subparagraph (A), the value of an
4 item shall be treated as shown on a return if the
5 item is disclosed in the return, or in a statement at-
6 tached to the return, in a manner adequate to ap-
7 prise the Secretary of the nature of such item.”.

8 (2) Paragraph (9) of section 6501(c) of the
9 1986 Code is amended by striking the last sentence.

10 (d) AMENDMENTS RELATED TO SECTION 904 OF
11 1997 Act.—

12 (1) Paragraph (1) of section 9510(c) of the
13 1986 Code is amended to read as follows:

14 “(1) IN GENERAL.—Amounts in the Vaccine In-
15 jury Compensation Trust Fund shall be available, as
16 provided in appropriation Acts, only for—

17 “(A) the payment of compensation under
18 subtitle 2 of title XXI of the Public Health
19 Service Act (as in effect on August 5, 1997) for
20 vaccine-related injury or death with respect to
21 any vaccine—

22 “(i) which is administered after Sep-
23 tember 30, 1988, and

24 “(ii) which is a taxable vaccine (as de-
25 fined in section 4132(a)(1)) at the time

1 compensation is paid under such subtitle 2,
2 or

3 “(B) the payment of all expenses of admin-
4 istration (but not in excess of \$6,000,000 for
5 any fiscal year) incurred by the Federal Gov-
6 ernment in administering such subtitle.”.

7 (2) Section 9510(b) of the 1986 Code is amend-
8 ed by adding at the end the following new para-
9 graph:

10 “(3) LIMITATION ON TRANSFERS TO VACCINE
11 INJURY COMPENSATION TRUST FUND.—No amount
12 may be appropriated to the Vaccine Injury Com-
13 pensation Trust Fund on and after the date of any
14 expenditure from the Trust Fund which is not per-
15 mitted by this section. The determination of whether
16 an expenditure is so permitted shall be made without
17 regard to—

18 “(A) any provision of law which is not con-
19 tained or referenced in this title or in a revenue
20 Act, and

21 “(B) whether such provision of law is a
22 subsequently enacted provision or directly or in-
23 directly seeks to waive the application of this
24 paragraph.”.

1 (e) AMENDMENTS RELATED TO SECTION 915 OF
2 1997 ACT.—

3 (1) Section 915 of the Taxpayer Relief Act of
4 1997 is amended—

5 (A) in subsection (b), by inserting “or
6 1998” after “1997”, and

7 (B) by amending subsection (d) to read as
8 follows:

9 “(d) EFFECTIVE DATE.—This section shall apply to
10 taxable years ending with or within calendar year 1997.”.

11 (2) Paragraph (2) of section 6404(h) of the
12 1986 Code is amended by inserting “Robert T. Staf-
13 ford” before “Disaster”.

14 (f) AMENDMENTS RELATED TO SECTION 1012 OF
15 1997 ACT.—

16 (1) Paragraph (2) of section 351(c) of the 1986
17 Code, as amended by section 6010(c) of the 1998
18 Act, is amended by inserting “, or the fact that the
19 corporation whose stock was distributed issues addi-
20 tional stock,” after “dispose of part or all of the dis-
21 tributed stock”.

22 (2) Clause (ii) of section 368(a)(2)(H) of the
23 1986 Code, as amended by section 6010(c) of the
24 1998 Act, is amended by inserting “, or the fact
25 that the corporation whose stock was distributed

1 issues additional stock,” after “dispose of part or all
2 of the distributed stock”.

3 (g) AMENDMENT RELATED TO SECTION 1082 OF
4 1997 ACT.—Subparagraph (F) of section 172(b)(1) of the
5 1986 Code is amended by adding at the end the following
6 new clause:

7 “(iv) COORDINATION WITH PARA-
8 GRAPH (2).—For purposes of applying
9 paragraph (2), an eligible loss for any tax-
10 able year shall be treated in a manner
11 similar to the manner in which a specified
12 liability loss is treated.”

13 (h) AMENDMENT RELATED TO SECTION 1084 OF
14 1997 ACT.—Paragraph (3) of section 264(f) of the 1986
15 Code is amended by adding at the end the following flush
16 sentence:

17 “If the amount described in subparagraph (A) with
18 respect to any policy or contract does not reasonably
19 approximate its actual value, the amount taken into
20 account under subparagraph (A) shall be the greater
21 of the amount of the insurance company liability or
22 the insurance company reserve with respect to such
23 policy or contract (as determined for purposes of the
24 annual statement approved by the National Associa-

tion of Insurance Commissioners) or shall be such other amount as is determined by the Secretary.”

(i) AMENDMENT RELATED TO SECTION 1205 OF 1997 ACT.—Paragraph (2) of section 6311(d) of the 1986 Code is amended by striking “under such contracts” in the last sentence and inserting “under any such contract for the use of credit or debit cards for the payment of taxes imposed by subtitle A”.

(j) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the provisions of the Taxpayer Relief Act of 1997 to which they relate.

SEC. 504. AMENDMENTS RELATED TO TAX REFORM ACT OF 1984.

(a) IN GENERAL.—Subparagraph (C) of section 172(d)(4) of the 1986 Code is amended to read as follows:

“(C) any deduction for casualty or theft losses allowable under paragraph (2) or (3) of section 165(c) shall be treated as attributable to the trade or business; and”.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (3) of section 67(b) of the 1986 Code is amended by striking “for losses described in subsection (c)(3) or (d) of section 165” and inserting “for casualty or theft losses described in para-

1 graph (2) or (3) of section 165(c) or for losses de-
 2 scribed in section 165(d)”.

3 (2) Paragraph (3) of section 68(c) of the 1986
 4 Code is amended by striking “for losses described in
 5 subsection (c)(3) or (d) of section 165” and insert-
 6 ing “for casualty or theft losses described in para-
 7 graph (2) or (3) of section 165(c) or for losses de-
 8 scribed in section 165(d)”.

9 (3) Paragraph (1) of section 873(b) is amended
 10 to read as follows:

11 “(1) LOSSES.—The deduction allowed by sec-
 12 tion 165 for casualty or theft losses described in
 13 paragraph (2) or (3) of section 165(c), but only if
 14 the loss is of property located within the United
 15 States.”

16 (c) EFFECTIVE DATES.—

17 (1) The amendments made by subsections (a)
 18 and (b)(3) shall apply to taxable years beginning
 19 after December 31, 1983.

20 (2) The amendment made by subsection (b)(1)
 21 shall apply to taxable years beginning after Decem-
 22 ber 31, 1986.

23 (3) The amendment made by subsection (b)(2)
 24 shall apply to taxable years beginning after Decem-
 25 ber 31, 1990.

1 **SEC. 505. OTHER AMENDMENTS.**

2 (a) AMENDMENTS RELATED TO SECTION 6103 OF
3 1986 CODE.—

4 (1) Subsection (j) of section 6103 of the 1986
5 Code is amended by adding at the end the following
6 new paragraph:

7 “(5) DEPARTMENT OF AGRICULTURE.—Upon
8 request in writing by the Secretary of Agriculture,
9 the Secretary shall furnish such returns, or return
10 information reflected thereon, as the Secretary may
11 prescribe by regulation to officers and employees of
12 the Department of Agriculture whose official duties
13 require access to such returns or information for the
14 purpose of, but only to the extent necessary in,
15 structuring, preparing, and conducting the census of
16 agriculture pursuant to the Census of Agriculture
17 Act of 1997 (Public Law 105–113).”.

18 (2) Paragraph (4) of section 6103(p) of the
19 1986 Code is amended by striking “(j)(1) or (2)” in
20 the material preceding subparagraph (A) and in sub-
21 paragraph (F) and inserting “(j)(1), (2), or (5)”.

22 (3) The amendments made by this subsection
23 shall apply to requests made on or after the date of
24 the enactment of this Act.

1 (b) AMENDMENT RELATED TO SECTION 9004 OF
 2 TRANSPORTATION EQUITY ACT FOR THE 21ST CEN-
 3 TURY.—

4 (1) Paragraph (2) of section 9503(f) of the
 5 1986 Code is amended to read as follows:

6 “(2) notwithstanding section 9602(b), obliga-
 7 tions held by such Fund after September 30, 1998,
 8 shall be obligations of the United States which are
 9 not interest-bearing.”

10 (2) The amendment made by paragraph (1)
 11 shall take effect on October 1, 1998.

12 (c) CLERICAL AMENDMENT.—Clause (i) of section
 13 51(d)(6)(B) of the 1986 Code is amended by striking “re-
 14 habilitation plan” and inserting “plan for employment”.

15 **TITLE VI—AMERICAN COMMU-** 16 **NITY RENEWAL ACT OF 1998**

17 **SEC. 601. SHORT TITLE.**

18 This title may be cited as the “American Community
 19 Renewal Act of 1998”.

20 **SEC. 602. FINDINGS AND PURPOSE.**

21 (a) FINDINGS.—The Congress makes the following
 22 findings:

23 (1) Many of the Nation’s urban centers are
 24 places with high levels of poverty, high rates of wel-

1 fare dependency, high crime rates, poor schools, and
2 joblessness.

3 (2) Federal tax incentives and regulatory re-
4 forms can encourage economic growth, job creation,
5 and small business formation in many urban centers.

6 (3) Encouraging private sector investment in
7 America's economically distressed urban and rural
8 areas is essential to breaking the cycle of poverty
9 and the related ills of crime, drug abuse, illiteracy,
10 welfare dependency, and unemployment.

11 (b) PURPOSE.—The purpose of this title is to in-
12 crease job creation, small business expansion and forma-
13 tion, educational opportunities, and homeownership, and
14 to foster moral renewal, in economically depressed areas
15 by providing Federal tax incentives, regulatory reforms,
16 school reform pilot projects, and homeownership incen-
17 tives.

18 **Subtitle A—Designation and Eval-** 19 **uation of Renewal Communities**

20 **SEC. 611. SHORT TITLE.**

21 This subtitle may be cited as the “Renewing Amer-
22 ican Communities Act of 1998”.

23 **SEC. 612. STATEMENT OF PURPOSE.**

24 It is the purpose of this subtitle to provide for the
25 establishment of renewal communities in order to stimu-

1 late the creation of new jobs, particularly for disadvan-
 2 tagged workers and long-term unemployed individuals, and
 3 to promote revitalization of economically distressed areas
 4 primarily by providing or encouraging—

5 (1) tax relief at the Federal, State, and local
 6 levels;

7 (2) regulatory relief at the Federal, State, and
 8 local levels; and

9 (3) improved local services and an increase in
 10 the economic stake of renewal community residents
 11 in their own community and its development, par-
 12 ticularly through the increased involvement of pri-
 13 vate, local, and neighborhood organizations.

14 **SEC. 613. DESIGNATION OF RENEWAL COMMUNITIES.**

15 (a) IN GENERAL.—Chapter 1 of the is amended by
 16 adding at the end the following new subchapter:

17 **“Subchapter X—Renewal Communities**

“Part I. Designation.”

18 **“PART I—DESIGNATION**

“Sec. 1400E. Designation of Renewal Communities.

19 **“SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.**

20 “(a) DESIGNATION.—

21 “(1) DEFINITIONS.—For purposes of this title,
 22 the term ‘renewal community’ means any area—

1 “(A) which is nominated by one or more
2 local governments and the State or States in
3 which it is located for designation as a renewal
4 community (hereinafter in this section referred
5 to as a ‘nominated area’), and

6 “(B) which the Secretary of Housing and
7 Urban Development, after consultation with—

8 “(i) the Secretaries of Agriculture,
9 Commerce, Labor, and the Treasury; the
10 Director of the Office of Management and
11 Budget; and the Administrator of the
12 Small Business Administration, and

13 “(ii) in the case of an area on an In-
14 dian reservation, the Secretary of the Inte-
15 rior,

16 designates as a renewal community.

17 “(2) NUMBER OF DESIGNATIONS.—

18 “(A) IN GENERAL.—The Secretary of
19 Housing and Urban Development may des-
20 ignate not more than 20 nominated areas as re-
21 newal communities.

22 “(B) MINIMUM DESIGNATION IN RURAL
23 AREAS.—Of the areas designated under para-
24 graph (1), at least 20 percent must be areas—

1 “(i) which are within a local govern-
 2 ment jurisdiction or jurisdictions with a
 3 population of less than 50,000 (as deter-
 4 mined under the most recent census data
 5 available),

6 “(ii) which are outside of a metropoli-
 7 tan statistical area (within the meaning of
 8 section 143(k)(2)(B)), or

9 “(iii) which are determined by the
 10 Secretary of Housing and Urban Develop-
 11 ment, after consultation with the Secretary
 12 of Commerce, to be rural areas.

13 “(C) ADDITIONAL DESIGNATIONS TO RE-
 14 PLACE REVOKED DESIGNATIONS.—

15 “(i) IN GENERAL.—The Secretary of
 16 Housing and Urban Development may des-
 17 ignate one additional area under subpara-
 18 graph (A) to replace each area for which
 19 the designation is revoked under subsection
 20 (b)(2), but in no event may more than 20
 21 areas designated under this subsection
 22 bear designations as renewal communities
 23 at any time.

24 “(ii) EXTENSION OF TIME LIMIT ON
 25 DESIGNATIONS.—In the case of any des-

1 ignation made under this subparagraph,
2 paragraph (4)(B) shall be applied by sub-
3 stituting ‘36-month’ for ‘24-month’.

4 “(3) AREAS DESIGNATED BASED ON DEGREE
5 OF POVERTY, ETC.—

6 “(A) IN GENERAL.—Except as otherwise
7 provided in this section, the nominated areas
8 designated as renewal communities under this
9 subsection shall be those nominated areas with
10 the highest average ranking with respect to the
11 criteria described in subparagraphs (C), (D),
12 and (E) of subsection (c)(3). For purposes of
13 the preceding sentence, an area shall be ranked
14 within each such criterion on the basis of the
15 amount by which the area exceeds such cri-
16 terion, with the area which exceeds such cri-
17 terion by the greatest amount given the highest
18 ranking.

19 “(B) EXCEPTION WHERE INADEQUATE
20 COURSE OF ACTION, ETC.—An area shall not be
21 designated under subparagraph (A) if the Sec-
22 retary of Housing and Urban Development de-
23 termines that the course of action described in
24 subsection (d)(2) with respect to such area is
25 inadequate.

1 “(C) PRIORITY FOR EMPOWERMENT ZONES
 2 AND ENTERPRISE COMMUNITIES WITH RESPECT
 3 TO FIRST HALF OF DESIGNATIONS.—With re-
 4 spect to the first half of the designations made
 5 under this section, the nominated areas des-
 6 ignated as renewal communities shall be chosen
 7 first from nominated areas which are enterprise
 8 zones or empowerment communities (and are
 9 otherwise eligible for designation under this sec-
 10 tion), and then from other nominated areas
 11 which are so eligible.

12 “(D) SEPARATE APPLICATION TO RURAL
 13 AND OTHER AREAS.—Subparagraph (A) shall
 14 be applied separately with respect to areas de-
 15 scribed in paragraph (2)(B) and to other areas.

16 “(4) LIMITATION ON DESIGNATIONS.—

17 “(A) PUBLICATION OF REGULATIONS.—
 18 The Secretary of Housing and Urban Develop-
 19 ment shall prescribe by regulation no later than
 20 4 months after the date of the enactment of
 21 this section, after consultation with the officials
 22 described in paragraph (1)(B)—

23 “(i) the procedures for nominating an
 24 area under paragraph (1)(A),

1 “(ii) the parameters relating to the
2 size and population characteristics of a re-
3 newal community, and

4 “(iii) the manner in which nominated
5 areas will be evaluated based on the cri-
6 teria specified in subsection (d).

7 “(B) TIME LIMITATIONS.—The Secretary
8 of Housing and Urban Development may des-
9 ignate nominated areas as renewal communities
10 only during the 24-month period beginning on
11 the first day of the first month following the
12 month in which the regulations described in
13 subparagraph (A) are prescribed.

14 “(C) PROCEDURAL RULES.—The Secretary
15 of Housing and Urban Development shall not
16 make any designation of a nominated area as a
17 renewal community under paragraph (2) un-
18 less—

19 “(i) the local governments and the
20 State in which the nominated area is lo-
21 cated have the authority—

22 “(I) to nominate such area for
23 designation as a renewal community,

1 “(II) to make the State and local
2 commitments described in subsection
3 (d), and

4 “(III) to provide assurances sat-
5 isfactory to the Secretary of Housing
6 and Urban Development that such
7 commitments will be fulfilled,

8 “(ii) a nomination regarding such
9 area is submitted in such a manner and in
10 such form, and contains such information,
11 as the Secretary of Housing and Urban
12 Development shall by regulation prescribe,
13 and

14 “(iii) the Secretary of Housing and
15 Urban Development determines that any
16 information furnished is reasonably accu-
17 rate.

18 “(5) NOMINATION PROCESS FOR INDIAN RES-
19 ERVATIONS.—For purposes of this subchapter, in
20 the case of a nominated area on an Indian reserva-
21 tion, the reservation governing body (as determined
22 by the Secretary of the Interior) shall be treated as
23 being both the State and local governments with re-
24 spect to such area.

1 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
2 FECT.—

3 “(1) IN GENERAL.—Any designation of an area
4 as a renewal community shall remain in effect dur-
5 ing the period beginning on the date of the designa-
6 tion and ending on the earliest of—

7 “(A) December 31, 2006,

8 “(B) the termination date designated by
9 the State and local governments in their nomi-
10 nation pursuant to subsection (a)(4)(C)(ii), or

11 “(C) the date the Secretary of Housing
12 and Urban Development revokes such designa-
13 tion under paragraph (2).

14 “(2) REVOCATION OF DESIGNATION.—The Sec-
15 retary of Housing and Urban Development may,
16 after a hearing on the record involving officials of
17 the State or local government involved (or both, if
18 applicable), revoke the designation of an area if the
19 Secretary of Housing and Urban Development deter-
20 mines that the local government or State in which
21 the area is located is not complying substantially
22 with the State or local commitments, respectively,
23 described in subsection (d).

24 “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

1 “(1) IN GENERAL.—The Secretary of Housing
2 and Urban Development may designate any nomi-
3 nated area as a renewal community under subsection
4 (a) only if the area meets the requirements of para-
5 graphs (2) and (3) of this subsection.

6 “(2) AREA REQUIREMENTS.—A nominated area
7 meets the requirements of this paragraph if—

8 “(A) the area is within the jurisdiction of
9 a local government,

10 “(B) the boundary of the area is continu-
11 ous, and

12 “(C) the area—

13 “(i) has a population, as determined
14 by the most recent census data available,
15 of at least—

16 “(I) 4,000 if any portion of such
17 area (other than a rural area de-
18 scribed in subsection (a)(2)(B)(i)) is
19 located within a metropolitan statis-
20 tical area (within the meaning of sec-
21 tion 143(k)(2)(B)) which has a popu-
22 lation of 50,000 or greater, or

23 “(II) 1,000 in any other case, or

1 “(ii) is entirely within an Indian res-
2 ervation (as determined by the Secretary of
3 the Interior).

4 “(3) ELIGIBILITY REQUIREMENTS.—A nomi-
5 nated area meets the requirements of this paragraph
6 if the State and the local governments in which it
7 is located certify (and the Secretary of Housing and
8 Urban Development, after such review of supporting
9 data as he deems appropriate, accepts such certifi-
10 cation) that—

11 “(A) the area is one of pervasive poverty,
12 unemployment, and general distress,

13 “(B) the unemployment rate in the area,
14 as determined by the appropriate available
15 data, was at least 1½ times the national unem-
16 ployment rate for the period to which such data
17 relate,

18 “(C) the poverty rate (as determined by
19 the most recent census data available) for each
20 population census tract (or where not tracted,
21 the equivalent county division as defined by the
22 Bureau of the Census for the purpose of defin-
23 ing poverty areas) within the area was at least
24 20 percent for the period to which such data re-
25 late, and

1 “(D) in the case of an urban area, at least
2 70 percent of the households living in the area
3 have incomes below 80 percent of the median
4 income of households within the jurisdiction of
5 the local government (determined in the same
6 manner as under section 119(b)(2) of the
7 Housing and Community Development Act of
8 1974).

9 “(4) CONSIDERATION OF HIGH INCIDENCE OF
10 CRIME.—The Secretary of Housing and Urban De-
11 velopment shall take into account, in selecting nomi-
12 nated areas for designation as renewal communities
13 under this section, the extent to which such areas
14 have a high incidence of crime.

15 “(5) CONSIDERATION OF COMMUNITIES IDENTI-
16 FIED IN GAO STUDY.—The Secretary of Housing
17 and Urban Development shall take into account, in
18 selecting nominated areas for designation as renewal
19 communities under this section, if the area has cen-
20 sus tracts identified in the May 12, 1998, report of
21 the Government Accounting Office regarding the
22 identification of economically distressed areas.

23 “(d) REQUIRED STATE AND LOCAL COMMIT-
24 MENTS.—

1 “(1) IN GENERAL.—The Secretary of Housing
2 and Urban Development may designate any nomi-
3 nated area as a renewal community under subsection
4 (a) only if—

5 “(A) the local government and the State in
6 which the area is located agree in writing that,
7 during any period during which the area is a
8 renewal community, such governments will fol-
9 low a specified course of action which meets the
10 requirements of paragraph (2) and is designed
11 to reduce the various burdens borne by employ-
12 ers or employees in such area, and

13 “(B) the economic growth promotion re-
14 quirements of paragraph (3) are met.

15 “(2) COURSE OF ACTION.—

16 “(A) IN GENERAL.—A course of action
17 meets the requirements of this paragraph if
18 such course of action is a written document,
19 signed by a State (or local government) and
20 neighborhood organizations, which evidences a
21 partnership between such State or government
22 and community-based organizations and which
23 commits each signatory to specific and measur-
24 able goals, actions, and timetables. Such course

1 of action shall include at least five of the follow-
2 ing:

3 “(i) A reduction of tax rates or fees
4 applying within the renewal community.

5 “(ii) An increase in the level of effi-
6 ciency of local services within the renewal
7 community.

8 “(iii) Crime reduction strategies, such
9 as crime prevention (including the provi-
10 sion of such services by nongovernmental
11 entities).

12 “(iv) Actions to reduce, remove, sim-
13 plify, or streamline governmental require-
14 ments applying within the renewal commu-
15 nity.

16 “(v) Involvement in the program by
17 private entities, organizations, neighbor-
18 hood organizations, and community
19 groups, particularly those in the renewal
20 community, including a commitment from
21 such private entities to provide jobs and
22 job training for, and technical, financial, or
23 other assistance to, employers, employees,
24 and residents from the renewal community.

1 “(vi) State or local income tax bene-
2 fits for fees paid for services performed by
3 a nongovernmental entity which were for-
4 merly performed by a governmental entity.

5 “(vii) The gift (or sale at below fair
6 market value) of surplus realty (such as
7 land, homes, and commercial or industrial
8 structures) in the renewal community to
9 neighborhood organizations, community de-
10 velopment corporations, or private compa-
11 nies.

12 “(B) RECOGNITION OF PAST EFFORTS.—
13 For purposes of this section, in evaluating the
14 course of action agreed to by any State or local
15 government, the Secretary of Housing and
16 Urban Development shall take into account the
17 past efforts of such State or local government
18 in reducing the various burdens borne by em-
19 ployers and employees in the area involved.

20 “(3) ECONOMIC GROWTH PROMOTION REQUIRE-
21 MENTS.—The economic growth promotion require-
22 ments of this paragraph are met with respect to a
23 nominated area if the local government and the
24 State in which such area is located certify in writing
25 that such government and State, respectively, have

1 repealed or otherwise will not enforce within the
2 area, if such area is designated as a renewal commu-
3 nity—

4 “(A) licensing requirements for occupa-
5 tions that do not ordinarily require a profes-
6 sional degree,

7 “(B) zoning restrictions on home-based
8 businesses which do not create a public nui-
9 sance,

10 “(C) permit requirements for street ven-
11 dors who do not create a public nuisance,

12 “(D) zoning or other restrictions that im-
13 pede the formation of schools or child care cen-
14 ters, and

15 “(E) franchises or other restrictions on
16 competition for businesses providing public
17 services, including but not limited to taxicabs,
18 jitneys, cable television, or trash hauling,

19 except to the extent that such regulation of busi-
20 nesses and occupations is necessary for and well-tai-
21 lored to the protection of health and safety.

22 “(e) COORDINATION WITH TREATMENT OF EM-
23 POWERMENT ZONES AND ENTERPRISE COMMUNITIES.—

24 For purposes of this title, if there are in effect with respect
25 to the same area both—

1 “(1) a designation as a renewal community, and

2 “(2) a designation as an empowerment zone or

3 enterprise community,

4 both of such designations shall be given full effect with

5 respect to such area.

6 “(f) DEFINITIONS.—For purposes of this sub-

7 chapter—

8 “(1) GOVERNMENTS.—If more than one govern-

9 ment seeks to nominate an area as a renewal com-

10 munity, any reference to, or requirement of, this sec-

11 tion shall apply to all such governments.

12 “(2) STATE.—The term ‘State’ includes Puerto

13 Rico, the Virgin Islands of the United States, Guam,

14 American Samoa, the Northern Mariana Islands,

15 and any other possession of the United States.

16 “(3) LOCAL GOVERNMENT.—The term ‘local

17 government’ means—

18 “(A) any county, city, town, township, par-

19 ish, village, or other general purpose political

20 subdivision of a State,

21 “(B) any combination of political subdivi-

22 sions described in subparagraph (A) recognized

23 by the Secretary of Housing and Urban Devel-

24 opment, and

25 “(C) the District of Columbia.”

1 **SEC. 614. EVALUATION AND REPORTING REQUIREMENTS.**

2 Not later than the close of the fourth calendar year
3 after the year in which the Secretary of Housing and
4 Urban Development first designates an area as a renewal
5 community under section 1400E of the Internal Revenue
6 Code of 1986, and at the close of each fourth calendar
7 year thereafter, such Secretary shall prepare and submit
8 to the Congress a report on the effects of such designa-
9 tions in accomplishing the purposes of this title.

10 **SEC. 615. INTERACTION WITH OTHER FEDERAL PROGRAMS.**

11 (a) TAX REDUCTIONS.—Any reduction of taxes, with
12 respect to any renewal community designated under sec-
13 tion 1400E of the Internal Revenue Code of 1986 (as
14 added by this subtitle), under any plan of action under
15 section 1400E(d) of such Code shall be disregarded in de-
16 termining the eligibility of a State or local government for,
17 or the amount or extent of, any assistance or benefits
18 under any law of the United States (other than subchapter
19 X of chapter 1 of such Code).

20 (b) COORDINATION WITH RELOCATION ASSIST-
21 ANCE.—The designation of a renewal community under
22 section 1400E of such Code (as added by this subtitle)
23 shall not—

24 (1) constitute approval of a Federal or Feder-
25 ally assisted program or project (within the meaning
26 of the Uniform Relocation Assistance and Real

1 Property Acquisition Policies Act of 1970 (42
2 U.S.C. 4601 et seq.)), or

3 (2) entitle any person displaced from real prop-
4 erty located in such community to any rights or any
5 benefits under such Act.

6 (c) RENEWAL COMMUNITIES TREATED AS LABOR
7 SURPLUS AREAS.—Any area which is designated as a re-
8 newal community under section 1400E of such Code (as
9 added by this subtitle) shall be treated for all purposes
10 under Federal law as a labor surplus area.

11 (d) COORDINATION WITH JOB TRAINING PRO-
12 GRAMS.—Renewal communities are encouraged to coordi-
13 nate efforts with job training providers who are public,
14 private not-for-profit, or private for-profit entities.

15 **Subtitle B—Tax Incentives for** 16 **Renewal Communities**

17 **SEC. 621. TAX TREATMENT OF RENEWAL COMMUNITIES.**

18 Subchapter X of chapter 1 (as added by subtitle A)
19 is amended by adding at the end the following new parts:

20 **“PART II—RENEWAL COMMUNITY CAPITAL GAIN**

 “Sec. 1400F. Renewal community capital gain.

 “Sec. 1400G. Renewal community business defined.

21 **“SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.**

22 “(a) GENERAL RULE.—Gross income does not in-
23 clude any qualified capital gain recognized on the sale or

1 exchange of a qualified community asset held for more
2 than 5 years.

3 “(b) QUALIFIED COMMUNITY ASSET.—For purposes
4 of this section—

5 “(1) IN GENERAL.—The term ‘qualified com-
6 munity asset’ means—

7 “(A) any qualified community stock,

8 “(B) any qualified community business
9 property, and

10 “(C) any qualified community partnership
11 interest.

12 “(2) QUALIFIED COMMUNITY STOCK.—

13 “(A) IN GENERAL.—Except as provided in
14 subparagraph (B), the term ‘qualified commu-
15 nity stock’ means any stock in a domestic cor-
16 poration if—

17 “(i) such stock is acquired by the tax-
18 payer after December 31, 1999, and before
19 January 1, 2007, at its original issue (di-
20 rectly or through an underwriter) from the
21 corporation solely in exchange for cash,

22 “(ii) as of the time such stock was
23 issued, such corporation was a renewal
24 community business (or, in the case of a
25 new corporation, such corporation was

1 being organized for purposes of being a re-
 2 newal community business), and

3 “(iii) during substantially all of the
 4 taxpayer’s holding period for such stock,
 5 such corporation qualified as a renewal
 6 community business.

7 “(B) REDEMPTIONS.—A rule similar to
 8 the rule of section 1202(c)(3) shall apply for
 9 purposes of this paragraph.

10 “(3) QUALIFIED COMMUNITY BUSINESS PROP-
 11 ERTY.—

12 “(A) IN GENERAL.—The term ‘qualified
 13 community business property’ means tangible
 14 property if—

15 “(i) such property was acquired by
 16 the taxpayer by purchase (as defined in
 17 section 179(d)(2)) after December 31,
 18 1999, and before January 1, 2007,

19 “(ii) the original use of such property
 20 in the renewal community commences with
 21 the taxpayer, and

22 “(iii) during substantially all of the
 23 taxpayer’s holding period for such prop-
 24 erty, substantially all of the use of such

1 property was in a renewal community busi-
2 ness of the taxpayer.

3 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-
4 PROVEMENTS.—

5 “(i) IN GENERAL.—The requirements
6 of clauses (i) and (ii) of subparagraph (A)
7 shall be treated as satisfied with respect
8 to—

9 “(I) property which is substan-
10 tially improved by the taxpayer before
11 January 1, 2007, and

12 “(II) any land on which such
13 property is located.

14 “(ii) SUBSTANTIAL IMPROVEMENT.—
15 For purposes of clause (i), property shall
16 be treated as substantially improved by the
17 taxpayer only if, during any 24-month pe-
18 riod beginning after the date on which the
19 designation of the renewal community took
20 effect, additions to basis with respect to
21 such property in the hands of the taxpayer
22 exceed the greater of—

23 “(I) an amount equal to the ad-
24 justed basis at the beginning of such

1 24-month period in the hands of the
2 taxpayer, or

3 “(II) \$5,000.

4 “(4) QUALIFIED COMMUNITY PARTNERSHIP IN-
5 TEREST.—The term ‘qualified community partner-
6 ship interest’ means any interest in a partnership
7 if—

8 “(A) such interest is acquired by the tax-
9 payer after December 31, 1999, and before
10 January 1, 2007,

11 “(B) as of the time such interest was ac-
12 quired, such partnership was a renewal commu-
13 nity business (or, in the case of a new partner-
14 ship, such partnership was being organized for
15 purposes of being a renewal community busi-
16 ness), and

17 “(C) during substantially all of the tax-
18 payer’s holding period for such interest, such
19 partnership qualified as a renewal community
20 business.

21 A rule similar to the rule of paragraph (2)(C) shall
22 apply for purposes of this paragraph.

23 “(5) TREATMENT OF SUBSEQUENT PUR-
24 CHASERS.—The term ‘qualified community asset’ in-
25 cludes any property which would be a qualified com-

1 munity asset but for paragraph (2)(A)(i), (3)(A)(ii),
2 or (4)(A) in the hands of the taxpayer if such prop-
3 erty was a qualified community asset in the hands
4 of all prior holders.

5 “(6) 10-YEAR SAFE HARBOR.—If any property
6 ceases to be a qualified community asset by reason
7 of paragraph (2)(A)(iii), (3)(A)(iii), or (4)(C) after
8 the 10-year period beginning on the date the tax-
9 payer acquired such property, such property shall
10 continue to be treated as meeting the requirements
11 of such paragraph; except that the amount of gain
12 to which subsection (a) applies on any sale or ex-
13 change of such property shall not exceed the amount
14 which would be qualified capital gain had such prop-
15 erty been sold on the date of such cessation.

16 “(7) TREATMENT OF COMMUNITY DESIGNATION
17 TERMINATIONS.—The termination of any designa-
18 tion of an area as a renewal community shall be dis-
19 regarded for purposes of determining whether any
20 property is a qualified community asset.

21 “(c) OTHER DEFINITIONS AND SPECIAL RULES.—
22 For purposes of this section—

23 “(1) QUALIFIED CAPITAL GAIN.—Except as
24 otherwise provided in this subsection, the term
25 ‘qualified capital gain’ means any long-term capital

1 gain recognized on the sale or exchange of a quali-
2 fied community asset held for more than 5 years
3 (determined without regard to any period before the
4 designation of the renewal community).

5 “(2) GAIN BEFORE 2000 OR AFTER 2006 NOT
6 QUALIFIED.—The term ‘qualified capital gain’ shall
7 not include any gain attributable to periods before
8 January 1, 2000, or after December 31, 2006.

9 “(3) CERTAIN GAIN NOT QUALIFIED.—The
10 term ‘qualified capital gain’ shall not include any
11 gain which would be treated as ordinary income
12 under section 1245 or under section 1250 if section
13 1250 applied to all depreciation rather than the ad-
14 ditional depreciation.

15 “(4) INTANGIBLES AND LAND NOT INTEGRAL
16 PART OF DC ZONE BUSINESS.—The term ‘qualified
17 capital gain’ shall not include any gain which is at-
18 tributable to real property, or an intangible asset,
19 which is not an integral part of a DC Zone business.

20 “(5) RELATED PARTY TRANSACTIONS.—The
21 term ‘qualified capital gain’ shall not include any
22 gain attributable, directly or indirectly, in whole or
23 in part, to a transaction with a related person. For
24 purposes of this paragraph, persons are related to

1 each other if such persons are described in section
 2 267(b) or 707(b)(1).

3 “(d) CERTAIN OTHER RULES TO APPLY.—Rules
 4 similar to the rules of subsections (g), (h), (i)(2), and (j)
 5 of section 1202 shall apply for purposes of this section.

6 “(e) SALES AND EXCHANGES OF INTERESTS IN
 7 PARTNERSHIPS AND S CORPORATIONS WHICH ARE
 8 QUALIFIED COMMUNITY BUSINESSES.—In the case of the
 9 sale or exchange of an interest in a partnership, or of
 10 stock in an S corporation, which was a renewal community
 11 business during substantially all of the period the taxpayer
 12 held such interest or stock, the amount of qualified capital
 13 gain shall be determined without regard to—

14 “(1) any intangible, and any land, which is not
 15 an integral part of any qualified business entity (as
 16 defined in section 1400G(b)), and

17 “(2) gain attributable to periods before the des-
 18 ignation of an area as a renewal community.

19 **“SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.**

20 “(a) IN GENERAL.—For purposes of this part, the
 21 term ‘renewal community business’ means—

22 “(1) any qualified business entity, and

23 “(2) any qualified proprietorship.

24 Such term shall include any trades or businesses which
 25 would qualify as a renewal community business if such

1 trades or businesses were separately incorporated. Such
2 term shall not include any trade or business of producing
3 property of a character subject to the allowance for deple-
4 tion under section 611.

5 “(b) QUALIFIED BUSINESS ENTITY.—For purposes
6 of this section, the term ‘qualified business entity’ means,
7 with respect to any taxable year, any corporation or part-
8 nership if for such year—

9 “(1) every trade or business of such entity is
10 the active conduct of a qualified business within a
11 renewal community,

12 “(2) at least 80 percent of the total gross in-
13 come of such entity is derived from the active con-
14 duct of such business,

15 “(3) substantially all of the use of the tangible
16 property of such entity (whether owned or leased) is
17 within a renewal community,

18 “(4) substantially all of the intangible property
19 of such entity is used in, and exclusively related to,
20 the active conduct of any such business,

21 “(5) substantially all of the services performed
22 for such entity by its employees are performed in a
23 renewal community,

24 “(6) at least 35 percent of its employees are
25 residents of a renewal community,

1 “(7) less than 5 percent of the average of the
2 aggregate unadjusted bases of the property of such
3 entity is attributable to collectibles (as defined in
4 section 408(m)(2)) other than collectibles that are
5 held primarily for sale to customers in the ordinary
6 course of such business, and

7 “(8) less than 5 percent of the average of the
8 aggregate unadjusted bases of the property of such
9 entity is attributable to nonqualified financial prop-
10 erty.

11 “(c) QUALIFIED PROPRIETORSHIP.—For purposes of
12 this section, the term ‘qualified proprietorship’ means,
13 with respect to any taxable year, any qualified business
14 carried on by an individual as a proprietorship if for such
15 year—

16 “(1) at least 80 percent of the total gross in-
17 come of such individual from such business is de-
18 rived from the active conduct of such business in a
19 renewal community,

20 “(2) substantially all of the use of the tangible
21 property of such individual in such business (wheth-
22 er owned or leased) is within a renewal community,

23 “(3) substantially all of the intangible property
24 of such business is used in, and exclusively related
25 to, the active conduct of such business,

1 “(4) substantially all of the services performed
2 for such individual in such business by employees of
3 such business are performed in a renewal commu-
4 nity,

5 “(5) at least 35 percent of such employees are
6 residents of a renewal community,

7 “(6) less than 5 percent of the average of the
8 aggregate unadjusted bases of the property of such
9 individual which is used in such business is attrib-
10 utable to collectibles (as defined in section
11 408(m)(2)) other than collectibles that are held pri-
12 marily for sale to customers in the ordinary course
13 of such business, and

14 “(7) less than 5 percent of the average of the
15 aggregate unadjusted bases of the property of such
16 individual which is used in such business is attrib-
17 utable to nonqualified financial property.

18 For purposes of this subsection, the term ‘employee’ in-
19 cludes the proprietor.

20 “(d) QUALIFIED BUSINESS.—For purposes of this
21 section—

22 “(1) IN GENERAL.—Except as otherwise pro-
23 vided in this subsection, the term ‘qualified business’
24 means any trade or business.

1 “(2) RENTAL OF REAL PROPERTY.—The rental
2 to others of real property located in a renewal com-
3 munity shall be treated as a qualified business if and
4 only if—

5 “(A) the property is not residential rental
6 property (as defined in section 168(e)(2)), and

7 “(B) at least 50 percent of the gross rental
8 income from the real property is from renewal
9 community businesses.

10 “(3) RENTAL OF TANGIBLE PERSONAL PROP-
11 PERTY.—The rental to others of tangible personal
12 property shall be treated as a qualified business if
13 and only if substantially all of the rental of such
14 property is by renewal community businesses or by
15 residents of a renewal community.

16 “(4) TREATMENT OF BUSINESS HOLDING IN-
17 TANGIBLES.—The term ‘qualified business’ shall not
18 include any trade or business consisting predomi-
19 nantly of the development or holding of intangibles
20 for sale or license.

21 “(5) CERTAIN BUSINESSES EXCLUDED.—The
22 term ‘qualified business’ shall not include—

23 “(A) any trade or business consisting of
24 the operation of any facility described in section
25 144(c)(6)(B), and

1 “(B) any trade or business the principal
2 activity of which is farming (within the meaning
3 of subparagraph (A) or (B) of section
4 2032A(e)(5)), but only if, as of the close of the
5 preceding taxable year, the sum of—

6 “(i) the aggregate unadjusted bases
7 (or, if greater, the fair market value) of
8 the assets owned by the taxpayer which are
9 used in such a trade or business, and

10 “(ii) the aggregate value of assets
11 leased by the taxpayer which are used in
12 such a trade or business,

13 exceeds \$500,000.

14 “(6) CONTROLLED GROUPS.—For purposes of
15 paragraph (5)(B), all persons treated as a single em-
16 ployer under subsection (a) or (b) of section 52 shall
17 be treated as a single taxpayer.

18 “(e) NONQUALIFIED FINANCIAL PROPERTY.—For
19 purposes of this section, the term ‘nonqualified financial
20 property’ means debt, stock, partnership interests, op-
21 tions, futures contracts, forward -contracts, warrants, no-
22 tional principal contracts, annuities, and other similar
23 property specified in regulations; except that such term
24 shall not include—

“Sec. 1400J. Designation of earned income tax credit payments for deposit to family development account.

21 No deduction shall be allowed under this paragraph
22 for any amount deposited in a family development

1 account under section 1400I (relating to demonstra-
2 tion program to provide matching amounts in re-
3 newal communities).

4 “(2) LIMITATION.—

5 “(A) IN GENERAL.—The amount allowable
6 as a deduction to any individual for any taxable
7 year by reason of paragraph (1)(A) shall not
8 exceed the lesser of—

9 “(i) \$2,000, or

10 “(ii) an amount equal to the com-
11 pensation includible in the individual’s
12 gross income for such taxable year.

13 “(B) PERSONS DONATING TO FAMILY DE-
14 VELOPMENT ACCOUNTS OF OTHERS.—The
15 amount allowable as a deduction to any person
16 for any taxable year by reason of paragraph
17 (1)(B) shall not exceed \$1,000 with respect to
18 any qualified individual.

19 “(3) SPECIAL RULES FOR CERTAIN MARRIED
20 INDIVIDUALS.—

21 “(A) IN GENERAL.—In the case of an indi-
22 vidual to whom this subparagraph applies for
23 the taxable year, the limitation of subparagraph
24 (A) of paragraph (2) shall be equal to the lesser
25 of—

1 “(i) the dollar amount in effect under
2 paragraph (2)(A)(i) for the taxable year,
3 or

4 “(ii) the sum of—

5 “(I) the compensation includible
6 in such individual’s gross income for
7 the taxable year, plus—

8 “(II) the compensation includible
9 in the gross income of such individ-
10 ual’s spouse for the taxable year re-
11 duced by the amount allowed as a de-
12 duction under paragraph (1) to such
13 spouse for such taxable year.

14 “(B) INDIVIDUALS TO WHOM SUBPARA-
15 GRAPH (A) APPLIES.—Subparagraph (A) shall
16 apply to any individual if—

17 “(i) such individual files a joint return
18 for the taxable year, and

19 “(ii) the amount of compensation (if
20 any) includible in such individual’s gross
21 income for the taxable year is less than the
22 compensation includible in the gross in-
23 come of such individual’s spouse for the
24 taxable year.

1 “(4) ROLLOVERS.—No deduction shall be al-
2 lowed under this section with respect to any rollover
3 contribution.

4 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

5 “(1) INCLUSION OF AMOUNTS IN GROSS IN-
6 COME.—Except as otherwise provided in this sub-
7 section, any amount paid or distributed out of a
8 family development account shall be included in
9 gross income by the payee or distributee, as the case
10 may be.

11 “(2) EXCLUSION OF QUALIFIED FAMILY DEVEL-
12 OPMENT DISTRIBUTIONS.—Paragraph (1) shall not
13 apply to any qualified family development distribu-
14 tion.

15 “(3) SPECIAL RULES.—Rules similar to the
16 rules of paragraphs (4) and (5) of section 408(d)
17 shall apply for purposes of this section.

18 “(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBUTION.—For purposes of this section—

20 “(1) IN GENERAL.—The term ‘qualified family
21 development distribution’ means any amount paid or
22 distributed out of a family development account
23 which would otherwise be includible in gross income,
24 to the extent that such payment or distribution is
25 used exclusively to pay qualified family development

1 expenses for the holder of the account or the spouse
 2 or dependent (as defined in section 152) of such
 3 holder.

4 “(2) QUALIFIED FAMILY DEVELOPMENT EX-
 5 PENSES.—The term ‘qualified family development
 6 expenses’ means any of the following:

7 “(A) Qualified postsecondary educational
 8 expenses.

9 “(B) First-home purchase costs.

10 “(C) Qualified business capitalization
 11 costs.

12 “(D) Qualified medical expenses.

13 “(E) Qualified rollovers.

14 “(3) QUALIFIED POSTSECONDARY EDU-
 15 CATIONAL EXPENSES.—

16 “(A) IN GENERAL.—The term ‘qualified
 17 postsecondary educational expenses’ means
 18 postsecondary educational expenses paid to an
 19 eligible educational institution.

20 “(B) POSTSECONDARY EDUCATIONAL EX-
 21 PENSES.—The term ‘postsecondary educational
 22 expenses’ means tuition, fees, room, board,
 23 books, supplies, and equipment required for the
 24 enrollment or attendance of a student at an eli-
 25 gible educational institution.

1 “(C) ELIGIBLE EDUCATIONAL INSTITU-
2 TION.—The term ‘eligible educational institu-
3 tion’ means the following:

4 “(i) INSTITUTION OF HIGHER EDU-
5 CATION.—An institution described in sec-
6 tion 481(a)(1) or 1201(a) of the Higher
7 Education Act of 1965 (20 U.S.C.
8 1088(a)(1), 1141(a)), as such sections are
9 in effect on the date of the enactment of
10 this section.

11 “(ii) POSTSECONDARY VOCATIONAL
12 EDUCATION SCHOOL.—An area vocational
13 education school (as defined in subpara-
14 graph (C) or (D) of section 521(4) of the
15 Carl D. Perkins Vocational and Applied
16 Technology Education Act (20 U.S.C.
17 2471(4))) which is in any State (as defined
18 in section 521(33) of such Act), as such
19 sections are in effect on the date of the en-
20 actment of this section.

21 “(D) COORDINATION WITH SAVINGS BOND
22 PROVISIONS.—The amount of qualified post-
23 secondary educational expenses for any taxable
24 year shall be reduced by any amount excludable
25 from gross income under section 135.

1 “(4) FIRST-HOME PURCHASE COSTS.—

2 “(A) IN GENERAL.—The term ‘first-home
3 purchase costs’ means qualified acquisition
4 costs with respect to a qualified principal resi-
5 dence for a qualified first-time homebuyer.

6 “(B) QUALIFIED ACQUISITION COSTS.—
7 The term ‘qualified acquisition costs’ means the
8 costs of acquiring, constructing, or reconstruct-
9 ing a residence. Such term includes any usual
10 or reasonable settlement, financing, or other
11 closing costs.

12 “(C) QUALIFIED PRINCIPAL RESIDENCE.—
13 The term ‘qualified principal residence’ means a
14 principal residence (within the meaning of sec-
15 tion 1034), the qualified acquisition costs of
16 which do not exceed 100 percent of the average
17 area purchase price applicable to such residence
18 (determined in accordance with paragraphs (2)
19 and (3) of section 143(e)).

20 “(D) QUALIFIED FIRST-TIME HOME-
21 BUYER.—

22 “(i) IN GENERAL.—The term ‘quali-
23 fied first-time homebuyer’ means an indi-
24 vidual if such individual (and, in the case
25 of a married individual, the individual’s

1 spouse) has no present ownership interest
2 in a principal residence during the 3-year
3 period ending on the date of acquisition of
4 the principal residence to which this sub-
5 section applies.

6 “(ii) DATE OF ACQUISITION.—The
7 term ‘date of acquisition’ means the date
8 on which a binding contract to acquire,
9 construct, or reconstruct the principal resi-
10 dence to which this subsection applies is
11 entered into.

12 “(5) QUALIFIED BUSINESS CAPITALIZATION
13 COSTS.—

14 “(A) IN GENERAL.—The term ‘qualified
15 business capitalization costs’ means qualified
16 expenditures for the capitalization of a qualified
17 business pursuant to a qualified plan.

18 “(B) QUALIFIED EXPENDITURES.—The
19 term ‘qualified expenditures’ means expendi-
20 tures included in a qualified plan, including
21 capital, plant, equipment, working capital, and
22 inventory expenses.

23 “(C) QUALIFIED BUSINESS.—The term
24 ‘qualified business’ means any business that

1 does not contravene any law or public policy (as
2 determined by the Secretary).

3 “(D) QUALIFIED PLAN.—The term ‘quali-
4 fied plan’ means a business plan which—

5 “(i) is approved by a financial institu-
6 tion, or by a nonprofit loan fund having
7 demonstrated fiduciary integrity,

8 “(ii) includes a description of services
9 or goods to be sold, a marketing plan, and
10 projected financial statements, and

11 “(iii) may require the eligible individ-
12 ual to obtain the assistance of an experi-
13 enced entrepreneurial advisor.

14 “(6) QUALIFIED MEDICAL EXPENSES.—The
15 term ‘qualified medical expenses’ means any amount
16 paid during the taxable year, not compensated for by
17 insurance or otherwise, for medical care (as defined
18 in section 213(d)) of the taxpayer, his spouse, or his
19 dependent (as defined in section 152).

20 “(7) QUALIFIED ROLLOVERS.—The term ‘quali-
21 fied rollover’ means any amount paid from a family
22 development account of a taxpayer into another such
23 account established for the benefit of—

24 “(A) such taxpayer, or

25 “(B) any qualified individual who is—

1 “(i) the spouse of such taxpayer, or

2 “(ii) any dependent (as defined in sec-
3 tion 152) of the taxpayer. Rules similar to
4 the rules of section 408(d)(3) shall apply
5 for purposes of this paragraph.

6 “(d) TAX TREATMENT OF ACCOUNTS.—

7 “(1) IN GENERAL.—Any family development ac-
8 count is exempt from taxation under this subtitle
9 unless such account has ceased to be a family devel-
10 opment account by reason of paragraph (2). Not-
11 withstanding the preceding sentence, any such ac-
12 count is subject to the taxes imposed by section 511
13 (relating to imposition of tax on unrelated business
14 income of charitable, etc., organizations).

15 “(2) LOSS OF EXEMPTION IN CASE OF PROHIB-
16 ITED TRANSACTIONS.—For purposes of this section,
17 rules similar to the rules of section 408(e) shall
18 apply.

19 “(e) FAMILY DEVELOPMENT ACCOUNT.—For pur-
20 poses of this title, the term ‘family development account’
21 means a trust created or organized in the United States
22 for the exclusive benefit of a qualified individual or his
23 beneficiaries, but only if the written governing instrument
24 creating the trust meets the following requirements:

1 “(1) Except in the case of a qualified rollover
2 (as defined in subsection (c)(7))—

3 “(A) no contribution will be accepted un-
4 less it is in cash, and

5 “(B) contributions will not be accepted for
6 the taxable year in excess of \$2,000 (deter-
7 mined without regard to any contribution made
8 under section 1400I (relating to demonstration
9 program to provide matching amounts in re-
10 newal communities)).

11 “(2) The trustee is a bank (as defined in sec-
12 tion 408(n)) or such other person who demonstrates
13 to the satisfaction of the Secretary that the manner
14 in which such other person will administer the trust
15 will be consistent with the requirements of this sec-
16 tion.

17 “(3) No part of the trust funds will be invested
18 in life insurance contracts.

19 “(4) The interest of an individual in the bal-
20 ance in his account is nonforfeitable.

21 “(5) The assets of the trust will not be commin-
22 gled with other property except in a common trust
23 fund or common investment fund.

24 “(6) Under regulations prescribed by the Sec-
25 retary, rules similar to the rules of section 401(a)(9)

1 and the incidental death benefit requirements of sec-
2 tion 401(a) shall apply to the distribution of the en-
3 tire interest of an individual for whose benefit the
4 trust is maintained.

5 “(f) QUALIFIED INDIVIDUAL.—For purposes of this
6 section, the term ‘qualified individual’ means, for any tax-
7 able year, an individual—

8 “(1) who is a bona fide resident of a renewal
9 community throughout the taxable year, and

10 “(2) to whom a credit was allowed under sec-
11 tion 32 for the preceding taxable year.

12 “(g) OTHER DEFINITIONS AND SPECIAL RULES.—

13 “(1) COMPENSATION.—The term ‘compensa-
14 tion’ has the meaning given such term by section
15 219(f)(1).

16 “(2) MARRIED INDIVIDUALS.—The maximum
17 deduction under subsection (a) shall be computed
18 separately for each individual, and this section shall
19 be applied without regard to any community prop-
20 erty laws.

21 “(3) TIME WHEN CONTRIBUTIONS DEEMED
22 MADE.—For purposes of this section, a taxpayer
23 shall be deemed to have made a contribution to a
24 family development account on the last day of the
25 preceding taxable year if the contribution is made on

1 account of such taxable year and is made not later
2 than the time prescribed by law for filing the return
3 for such taxable year (not including extensions
4 thereof).

5 “(4) EMPLOYER PAYMENTS.—For purposes of
6 this title, any amount paid by an employer to a fam-
7 ily development account shall be treated as payment
8 of compensation to the employee (other than a self-
9 employed individual who is an employee within the
10 meaning of section 401(c)(1)) includible in his gross
11 income in the taxable year for which the amount was
12 contributed, whether or not a deduction for such
13 payment is allowable under this section to the em-
14 ployee.

15 “(5) ZERO BASIS.—The basis of an individual
16 in any family development account of such individual
17 shall be zero.

18 “(6) CUSTODIAL ACCOUNTS.—For purposes of
19 this section, a custodial account shall be treated as
20 a trust if the assets of such account are held by a
21 bank (as defined in section 408(n)) or another per-
22 son who demonstrates, to the satisfaction of the Sec-
23 retary, that the manner in which such person will
24 administer the account will be consistent with the re-
25 quirements of this section, and if the custodial ac-

1 count would, except for the fact that it is not a
2 trust, constitute a family development account de-
3 scribed in this section. For purposes of this title, in
4 the case of a custodial account treated as a trust by
5 reason of the preceding sentence, the custodian of
6 such account shall be treated as the trustee thereof.

7 “(7) REPORTS.—The trustee of a family devel-
8 opment account shall make such reports regarding
9 such account to the Secretary and to the individual
10 for whom the account is maintained with respect to
11 contributions (and the years to which they relate),
12 distributions, and such other matters as the Sec-
13 retary may require under regulations. The reports
14 required by this paragraph—

15 “(A) shall be filed at such time and in
16 such manner as the Secretary prescribes in
17 such regulations, and

18 “(B) shall be furnished to individuals—

19 “(i) not later than January 31 of the
20 calendar year following the calendar year
21 to which such reports relate, and

22 “(ii) in such manner as the Secretary
23 prescribes in such regulations.

24 “(8) INVESTMENT IN COLLECTIBLES TREATED
25 AS DISTRIBUTIONS.—Rules similar to the rules of

1 section 408(m) shall apply for purposes of this sec-
 2 tion.

3 “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR
 4 QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

5 “(1) IN GENERAL.—If any amount is distrib-
 6 uted from a family development account and is not
 7 used exclusively to pay qualified family development
 8 expenses for the holder of the account or the spouse
 9 or dependent (as defined in section 152) of such
 10 holder, the tax imposed by this chapter for the tax-
 11 able year of such distribution shall be increased by
 12 the sum of—

13 “(A) 100 percent of the portion of such
 14 amount which is includible in gross income and
 15 is attributable to amounts contributed under
 16 section 1400I (relating to demonstration pro-
 17 gram to provide matching amounts in renewal
 18 communities), and

19 “(B) 10 percent of the portion of such
 20 amount which is includible in gross income and
 21 is not described in paragraph (1).

22 For purposes of this subsection, the portion of a dis-
 23 tributed amount which is attributable to amounts
 24 contributed under section 1400I is the amount
 25 which bears the same ratio to the distributed

1 amount as the aggregate amount contributed under
 2 section 1400I to all family development accounts of
 3 the individual bears to the aggregate amount con-
 4 tributed to such accounts from all sources.

5 “(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to distribu-
 6 tions which are—
 7

8 “(A) made on or after the date on which
 9 the account holder attains age 59½,

10 “(B) made pursuant to subsection (e)(6),

11 “(C) made to a beneficiary (or the estate
 12 of the account holder) on or after the death of
 13 the account holder, or

14 “(D) attributable to the account holder’s
 15 being disabled within the meaning of section
 16 72(m)(7).

17 “(i) TERMINATION.—No deduction shall be allowed
 18 under this section for any amount paid to a family devel-
 19 opment account for any taxable year beginning after De-
 20 cember 31, 2006.

21 **“SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE**
 22 **MATCHING CONTRIBUTIONS TO FAMILY DE-**
 23 **VELOPMENT ACCOUNTS IN CERTAIN RE-**
 24 **NEWAL COMMUNITIES.**

25 “(a) DESIGNATION.—

1 “(1) DEFINITIONS.—For purposes of this sec-
2 tion, the term ‘FDA matching demonstration area’
3 means any renewal community—

4 “(A) which is nominated under this section
5 by each of the local governments and States
6 which nominated such community for designa-
7 tion as a renewal community under section
8 1400E(a)(1)(A), and

9 “(B) which the Secretary of Housing and
10 Urban Development, after consultation with—

11 “(i) the Secretaries of Agriculture,
12 Commerce, Labor, and the Treasury, the
13 Director of the Office of Management and
14 Budget, and the Administrator of the
15 Small Business Administration, and

16 “(ii) in the case of a community on an
17 Indian reservation, the Secretary of the In-
18 terior,

19 designates as an FDA matching demonstration
20 area.

21 “(2) NUMBER OF DESIGNATIONS.—

22 “(A) IN GENERAL.—The Secretary of
23 Housing and Urban Development may des-
24 ignate not more than 25 percent of the renewal

1 communities as FDA matching demonstration
2 areas.

3 “(B) MINIMUM DESIGNATION IN RURAL
4 AREAS.—Of the areas designated under para-
5 graph (1), at least 2 must be areas described in
6 section 1400E(a)(2)(B).

7 “(3) LIMITATIONS ON DESIGNATIONS.—

8 “(A) PUBLICATION OF REGULATIONS.—
9 The Secretary of Housing and Urban Develop-
10 ment shall prescribe by regulation no later than
11 4 months after the date of the enactment of
12 this section, after consultation with the officials
13 described in paragraph (1)(B)—

14 “(i) the procedures for nominating a
15 renewal community under paragraph
16 (1)(A) (including procedures for coordinat-
17 ing such nomination with the nomination
18 of an area for designation as a renewal
19 community under section 1400E), and

20 “(ii) the manner in which nominated
21 renewal communities will be evaluated for
22 purposes of this section.

23 “(B) TIME LIMITATIONS.—The Secretary
24 of Housing and Urban Development may des-
25 ignate renewal communities as FDA matching

1 demonstration areas only during the 24-month
2 period beginning on the first day of the first
3 month following the month in which the regula-
4 tions described in subparagraph (A) are pre-
5 scribed.

6 “(4) DESIGNATION BASED ON DEGREE OF POV-
7 ERTY, ETC.—The rules of section 1400E(a)(3) shall
8 apply for purposes of designations of FDA matching
9 demonstration areas under this section.

10 “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
11 FECT.—Any designation of a renewal community as an
12 FDA matching demonstration area shall remain in effect
13 during the period beginning on the date of such designa-
14 tion and ending on the date on which such area ceases
15 to be a renewal community.

16 “(c) MATCHING CONTRIBUTIONS TO FAMILY DEVEL-
17 OPMENT ACCOUNTS.—

18 “(1) IN GENERAL.—Not less than once each
19 taxable year, the Secretary shall deposit (to the ex-
20 tent provided in appropriation Acts) into a family
21 development account of each qualified individual (as
22 defined in section 1400H(f)) who is a resident
23 throughout the taxable year of an FDA matching
24 demonstration area an amount equal to the sum of
25 the amounts deposited into all of the family develop-

1 ment accounts of such individual during such tax-
 2 able year (determined without regard to any amount
 3 contributed under this section).

4 “(2) LIMITATIONS.—

5 “(A) ANNUAL LIMIT.—The Secretary shall
 6 not deposit more than \$1000 under paragraph
 7 (1) with respect to any individual for any tax-
 8 able year.

9 “(B) AGGREGATE LIMIT.—The Secretary
 10 shall not deposit more than \$2000 under para-
 11 graph (1) with respect to any individual.

12 “(3) EXCLUSION FROM INCOME.—Except as
 13 provided in section 1400H, gross income shall not
 14 include any amount deposited into a family develop-
 15 ment account under paragraph (1).

16 “(d) TERMINATION.—No amount may be deposited
 17 under this section for any taxable year beginning after De-
 18 cember 31, 2006.

19 **“SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CRED-**
 20 **IT PAYMENTS FOR DEPOSIT TO FAMILY DE-**
 21 **VELOPMENT ACCOUNT.**

22 “(a) IN GENERAL.—With respect to the return of any
 23 qualified individual (as defined in section 1400H(f)) for
 24 the taxable year of the tax imposed by this chapter, such
 25 individual may designate that a specified portion (not less

1 than \$1) of any overpayment of tax for such taxable year
2 which is attributable to the earned income tax credit shall
3 be deposited by the Secretary into a family development
4 account of such individual. The Secretary shall so deposit
5 such portion designated under this subsection.

6 “(b) MANNER AND TIME OF DESIGNATION.—A des-
7 ignation under subsection (a) may be made with respect
8 to any taxable year—

9 “(1) at the time of filing the return of the tax
10 imposed by this chapter for such taxable year, or

11 “(2) at any other time (after the time of filing
12 the return of the tax imposed by this chapter for
13 such taxable year) specified in regulations prescribed
14 by the Secretary.

15 Such designation shall be made in such manner as the
16 Secretary prescribes by regulations.

17 “(c) PORTION ATTRIBUTABLE TO EARNED INCOME
18 TAX CREDIT.—For purposes of subsection (a), an over-
19 payment for any taxable year shall be treated as attrib-
20 utable to the earned income tax credit to the extent that
21 such overpayment does not exceed the credit allowed to
22 the taxpayer under section 32 for such taxable year.

23 “(d) OVERPAYMENTS TREATED AS REFUNDED.—
24 For purposes of this title, any portion of an overpayment
25 of tax designated under subsection (a) shall be treated as

1 being refunded to the taxpayer as of the last date pre-
 2 scribed for filing the return of tax imposed by this chapter
 3 (determined without regard to extensions) or, if later, the
 4 date the return is filed.

5 “(e) TERMINATION.—This section shall not apply to
 6 any taxable year beginning after December 31, 2006.

7 **“PART IV—ADDITIONAL INCENTIVES**

“Sec. 1400K. Commercial revitalization credit.

“Sec. 1400L. Increase in expensing under section 179.

“Sec. 1400M. Expensing of renewal community environmental re-
 mediation costs.

8 **“SEC. 1400K. COMMERCIAL REVITALIZATION TAX CREDIT.**

9 “(a) GENERAL RULE.—For purposes of section 46,
 10 except as provided in subsection (e), the commercial revi-
 11 talization credit for any taxable year is an amount equal
 12 to the applicable percentage of the qualified revitalization
 13 expenditures with respect to any qualified revitalization
 14 building.

15 “(b) APPLICABLE PERCENTAGE.—For purposes of
 16 this section—

17 “(1) IN GENERAL.—The term ‘applicable per-
 18 centage’ means—

19 “(A) 20 percent for the taxable year in
 20 which a qualified revitalization building is
 21 placed in service, or

22 “(B) at the election of the taxpayer, 5 per-
 23 cent for each taxable year in the credit period.

1 The election under subparagraph (B), once made,
2 shall be irrevocable.

3 “(2) CREDIT PERIOD.—

4 “(A) IN GENERAL.—The term ‘credit pe-
5 riod’ means, with respect to any building, the
6 period of 10 taxable years beginning with the
7 taxable year in which the building is placed in
8 service.

9 “(B) APPLICABLE RULES.—Rules similar
10 to the rules under paragraphs (2) and (4) of
11 section 42(f) shall apply.

12 “(c) QUALIFIED REVITALIZATION BUILDINGS AND
13 EXPENDITURES.—For purposes of this section—

14 “(1) QUALIFIED REVITALIZATION BUILDING.—

15 The term ‘qualified revitalization building’ means
16 any building (and its structural components) if—

17 “(A) such building is located in a renewal
18 community and is placed in service after the
19 designation of such renewal community under
20 section 1400E,

21 “(B) a commercial revitalization credit
22 amount is allocated to the building under sub-
23 section (e), and

1 “(C) depreciation (or amortization in lieu
2 of depreciation) is allowable with respect to the
3 building.

4 “(2) QUALIFIED REVITALIZATION EXPENDI-
5 TURE.—

6 “(A) IN GENERAL.—The term ‘qualified
7 revitalization expenditure’ means any amount
8 properly chargeable to capital account—

9 “(i) for property for which deprecia-
10 tion is allowable under section 168 and
11 which is—

12 “(I) nonresidential real property,
13 or

14 “(II) an addition or improvement
15 to property described in subclause (I),

16 “(ii) in connection with the construc-
17 tion or substantial rehabilitation or recon-
18 struction of a qualified revitalization build-
19 ing, or

20 “(iii) for the acquisition of land in
21 connection with the qualified revitalization
22 building.

23 “(B) DOLLAR LIMITATION.—The aggre-
24 gate amount which may be treated as qualified
25 revitalization expenditures with respect to any

1 qualified revitalization building for any taxable
2 year shall not exceed the excess of—

3 “(i) \$10,000,000, reduced by

4 “(ii) any such expenditures with re-
5 spect to the building taken into account by
6 the taxpayer or any predecessor in deter-
7 mining the amount of the credit under this
8 section for all preceding taxable years.

9 “(C) CERTAIN EXPENDITURES NOT IN-
10 CLUDED.—The term ‘qualified revitalization ex-
11 penditure’ does not include—

12 “(i) STRAIGHT LINE DEPRECIATION
13 MUST BE USED.—Any expenditure (other
14 than with respect to land acquisitions) with
15 respect to which the taxpayer does not use
16 the straight line method over a recovery
17 period determined under subsection (c) or
18 (g) of section 168. The preceding sentence
19 shall not apply to any expenditure to the
20 extent the alternative depreciation system
21 of section 168(g) applies to such expendi-
22 ture by reason of subparagraph (B) or (C)
23 of section 168(g)(1).

24 “(ii) ACQUISITION COSTS.—The costs
25 of acquiring any building or interest there-

1 in and any land in connection with such
2 building to the extent that such costs ex-
3 ceed 30 percent of the qualified revitaliza-
4 tion expenditures determined without re-
5 gard to this clause.

6 “(iii) OTHER CREDITS.—Any expendi-
7 ture which the taxpayer may take into ac-
8 count in computing any other credit allow-
9 able under this title unless the taxpayer
10 elects to take the expenditure into account
11 only for purposes of this section.

12 “(5) SUBSTANTIAL REHABILITATION OR RE-
13 CONSTRUCTION.—For purposes of this subsection, a
14 rehabilitation or reconstruction shall be treated as a
15 substantial rehabilitation or reconstruction only if
16 the qualified revitalization expenditures in connec-
17 tion with the rehabilitation or reconstruction exceed
18 25 percent of the fair market value of the building
19 (and its structural components) immediately before
20 the rehabilitation or reconstruction.

21 “(d) WHEN EXPENDITURES TAKEN INTO AC-
22 COUNT.—

23 “(1) IN GENERAL.—Qualified revitalization ex-
24 penditures with respect to any qualified revitaliza-
25 tion building shall be taken into account for the tax-

1 able year in which the qualified revitalization build-
2 ing is placed in service. For purposes of the preced-
3 ing sentence, a substantial rehabilitation or recon-
4 struction of a building shall be treated as a separate
5 building.

6 “(2) PROGRESS EXPENDITURE PAYMENTS.—
7 Rules similar to the rules of subsections (b)(2) and
8 (d) of section 47 shall apply for purposes of this sec-
9 tion.

10 “(e) LIMITATION ON AGGREGATE CREDITS ALLOW-
11 ABLE WITH RESPECT TO BUILDINGS LOCATED IN A
12 STATE.—

13 “(1) IN GENERAL.—The amount of the credit
14 determined under this section for any taxable year
15 with respect to any building shall not exceed the
16 commercial revitalization credit amount (in the case
17 of an amount determined under subsection
18 (b)(1)(B), the present value of such amount as de-
19 termined under the rules of section 42(b)(2)(C)) al-
20 located to such building under this subsection by the
21 commercial revitalization credit agency. Such alloca-
22 tion shall be made at the same time and in the same
23 manner as under paragraphs (1) and (7) of section
24 42(h).

1 “(2) COMMERCIAL REVITALIZATION CREDIT
2 AMOUNT FOR AGENCIES.—

3 “(A) IN GENERAL.—The aggregate com-
4 mercial revitalization credit amount which a
5 commercial revitalization credit agency may al-
6 locate for any calendar year is the amount of
7 the State commercial revitalization credit ceil-
8 ing determined under this paragraph for such
9 calendar year for such agency.

10 “(B) STATE COMMERCIAL REVITALIZATION
11 CREDIT CEILING.—

12 “(i) IN GENERAL.—The State com-
13 mercial revitalization credit ceiling applica-
14 ble to any State for any calendar year is
15 \$2,000,000 for each renewal community in
16 the State.

17 “(ii) SPECIAL RULE WHERE COMMU-
18 NITY LOCATED IN MORE THAN 1 STATE.—
19 If a renewal community is located in more
20 than 1 State, a State’s share of the
21 amount specified in clause (i) with respect
22 to such community shall be an amount
23 that bears the same ratio to \$2,000,000 as
24 the population in the State bears to the

1 population in all States in which such com-
2 munity is located.

3 “(iii) OTHER SPECIAL RULES.—Rules
4 similar to the rules of subparagraphs (D),
5 (E), (F), and (G) of section 42(h)(3) shall
6 apply for purposes of this subsection.

7 “(C) COMMERCIAL REVITALIZATION CRED-
8 IT AGENCY.—For purposes of this section, the
9 term ‘commercial revitalization credit agency’
10 means any agency authorized by a State to
11 carry out this section.

12 “(f) RESPONSIBILITIES OF COMMERCIAL REVITAL-
13 IZATION CREDIT AGENCIES.—

14 “(1) PLANS FOR ALLOCATION.—Notwithstand-
15 ing any other provision of this section, the commer-
16 cial revitalization credit amount with respect to any
17 building shall be zero unless—

18 “(A) such amount was allocated pursuant
19 to a qualified allocation plan of the commercial
20 revitalization credit agency which is approved
21 (in accordance with rules similar to the rules of
22 section 147(f)(2) (other than subparagraph
23 (B)(ii) thereof)) by the governmental unit of
24 which such agency is a part, and

1 “(B) such agency notifies the chief execu-
2 tive officer (or its equivalent) of the local juris-
3 diction within which the building is located of
4 such allocation and provides such individual a
5 reasonable opportunity to comment on the allo-
6 cation.

7 “(2) QUALIFIED ALLOCATION PLAN.—For pur-
8 poses of this subsection, the term ‘qualified alloca-
9 tion plan’ means any plan—

10 “(A) which sets forth selection criteria to
11 be used to determine priorities of the commer-
12 cial revitalization credit agency which are ap-
13 propriate to local conditions,

14 “(B) which considers—

15 “(i) the degree to which a project con-
16 tributes to the implementation of a strate-
17 gic plan that is devised for a renewal com-
18 munity through a citizen participation
19 process,

20 “(ii) the amount of any increase in
21 permanent, full-time employment by reason
22 of any project, and

23 “(iii) the active involvement of resi-
24 dents and nonprofit groups within the re-
25 newal community, and

1 “(C) which provides a procedure that the
2 agency (or its agent) will follow in monitoring
3 compliance with this section.

4 “(g) TERMINATION.—This section shall not apply to
5 any building placed in service after December 31, 2002.

6 **“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

7 “(a) GENERAL RULE.—In the case of a renewal com-
8 munity business (as defined in section 1400G), for pur-
9 poses of section 179—

10 “(1) the limitation under section 179(b)(1)
11 shall be increased by the lesser of—

12 “(A) \$35,000, or

13 “(B) the cost of section 179 property
14 which is qualified renewal property placed in
15 service during the taxable year, and

16 “(2) the amount taken into account under sec-
17 tion 179(b)(2) with respect to any section 179 prop-
18 erty which is qualified renewal property shall be 50
19 percent of the cost thereof.

20 “(b) RECAPTURE.—Rules similar to the rules under
21 section 179(d)(10) shall apply with respect to any quali-
22 fied renewal property which ceases to be used in a renewal
23 community by a renewal community business.

24 “(c) QUALIFIED RENEWAL PROPERTY.—

1 “(1) GENERAL RULE.—For purposes of this
2 section—

3 “(A) IN GENERAL.—The term ‘qualified
4 renewal property’ means any property to which
5 section 168 applies (or would apply but for sec-
6 tion 179) if—

7 “(i) such property was acquired by
8 the taxpayer by purchase (as defined in
9 section 179(d)(2)) after December 31,
10 1999, and before January 1, 2007,

11 “(ii) the original use of which in a re-
12 newal community commences with the tax-
13 payer, and

14 “(iii) substantially all of the use of
15 which is in a renewal community and is in
16 the active conduct of a qualified business
17 (as defined in section 1400G(d)) by the
18 taxpayer in such renewal community.

19 “(B) SPECIAL RULE FOR SUBSTANTIAL
20 RENOVATIONS.—In the case of any property
21 which is substantially renovated by the tax-
22 payer, the requirements of clauses (i) and (ii)
23 of subparagraph (A) shall be treated as satis-
24 fied. For purposes of the preceding sentence,
25 property shall be treated as substantially ren-

1 ovated by the taxpayer only if, during any 24-
 2 month period beginning after the date on which
 3 the designation of the renewal community took
 4 effect, additions to basis with respect to such
 5 property in the hands of the taxpayer exceed
 6 the greater of (i) an amount equal to the ad-
 7 justed basis at the beginning of such 24-month
 8 period in the hands of the taxpayer, or (ii)
 9 \$5,000.

10 “(2) SPECIAL RULES FOR SALE-LEASEBACKS.—

11 For purposes of paragraph (1)(A)(ii), if property is
 12 sold and leased back by the taxpayer within 3
 13 months after the date such property was originally
 14 placed in service, such property shall be treated as
 15 originally placed in service not earlier than the date
 16 on which such property is used under the leaseback.

17 **“SEC. 1400M. EXPENSING OF RENEWAL COMMUNITY ENVI-**
 18 **RONMENTAL REMEDIATION COSTS.**

19 “(a) TREATMENT AS EXPENSE.—A taxpayer may
 20 elect to treat any renewal community environmental reme-
 21 diation cost as an expense which is not chargeable to cap-
 22 ital account. Any cost so treated shall be allowable as a
 23 deduction for the taxable year in which the cost is paid
 24 or incurred.

1 “(b) RENEWAL COMMUNITY ENVIRONMENTAL RE-
2 MEDIATION COST.—For purposes of this section—

3 “(1) IN GENERAL.—The term ‘renewal commu-
4 nity environmental remediation cost’ means any cost
5 which—

6 “(A) is chargeable to capital account (de-
7 termined without regard to this section),

8 “(B) is paid or incurred in connection with
9 the abatement or control of environmental con-
10 taminants at a site located within a renewal
11 community, and

12 “(C) is certified by the applicable Federal
13 or State authority as being required by, and in
14 compliance with, applicable Federal and State
15 laws governing abatement and control of envi-
16 ronmental contaminants.

17 “(2) EXCEPTIONS.—Such term shall not in-
18 clude any amount paid or incurred—

19 “(A) for equipment which is used in the
20 environmental remediation and which is of a
21 character subject to an allowance for deprecia-
22 tion or amortization, or

23 “(B) in connection with a site which is on
24 the national priorities list under section
25 105(a)(8)(B) of the Comprehensive Environ-

1 mental Response, Compensation, and Liability
2 Act of 1980 (42 U.S.C. 9605(a)(8)(B)).

3 No deduction shall be allowed under this section for
4 any amount which is allowed as a deduction under
5 any other provision of this subtitle.

6 “(c) SPECIAL RULES.—For purposes of this sec-
7 tion—

8 “(1) LIMITATION BASED ON INCOME FROM
9 TRADE OR BUSINESS.—The amount allowed as a de-
10 duction under subsection (a) for any taxable year
11 shall not exceed the aggregate amount of taxable in-
12 come of the taxpayer for such taxable year which is
13 derived from the active conduct by the taxpayer of
14 any trade or business during such taxable year. For
15 purposes of this paragraph, rules similar to the rules
16 of subparagraphs (B) and (C) of section 179(b)(3)
17 shall apply. In the case of a partnership, S corpora-
18 tion, trust or other passthru entity, this paragraph
19 shall be applied at both the entity and owner levels.

20 “(2) RECAPTURE RULES.—

21 “(A) PROPERTY NOT USED IN TRADE OR
22 BUSINESS.—The Secretary shall, by regulations,
23 provide for recapturing the benefit of any de-
24 duction allowable under subsection (a) with re-

1 spect to any property not used predominantly in
 2 a trade or business at any time.

3 “(B) TREATMENT OF GAIN AS ORDINARY
 4 INCOME.—For purposes of section 1245—

5 “(i) the deduction allowable under
 6 subsection (a) shall be treated as a deduc-
 7 tion allowable to the taxpayer for deprecia-
 8 tion or amortization; and

9 “(ii) property (other than section
 10 1245 property) to which the deduction
 11 would otherwise have been chargeable shall
 12 be treated as section 1245 property solely
 13 for purposes of applying section 1245 to
 14 such deduction.

15 “(d) TERMINATION.—This section shall not apply to
 16 any cost paid or incurred after December 31, 2006.”

17 **SEC. 622. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**
 18 **FOR RENEWAL COMMUNITIES**

19 (a) EXTENSION.—Subsection (c) of section 51 (relat-
 20 ing to termination) is amended by adding at the end the
 21 following new paragraph:

22 “(5) EXTENSION OF CREDIT FOR RENEWAL
 23 COMMUNITIES.—

24 “(A) IN GENERAL.—In the case of an indi-
 25 vidual who begins work for the employer after

1 the date contained in paragraph (4)(B), for
2 purposes of section 38—

3 “(i) in lieu of applying subsection (a),
4 the amount of the work opportunity credit
5 determined under this section for the tax-
6 able year shall be equal to—

7 “(I) 15 percent of the qualified
8 first-year wages for such year, and

9 “(II) 30 percent of the qualified
10 second-year wages for such year,

11 “(ii) subsection (b)(3) shall be applied
12 by substituting ‘\$10,000’ for ‘\$6,000’,

13 “(iii) paragraph (4)(B) shall be ap-
14 plied by substituting for the date contained
15 therein the last day for which the designa-
16 tion under section 1400E of the renewal
17 community referred to in subparagraph
18 (B)(i) is in effect, and

19 “(iv) rules similar to the rules of sec-
20 tion 51A(b)(5)(C) shall apply.

21 “(B) QUALIFIED FIRST AND SECOND-YEAR
22 WAGES.—For purposes of subparagraph (A)—

23 “(i) IN GENERAL.—The term ‘quali-
24 fied wages’ means, with respect to each 1-
25 year period referred to in clause (ii) or

1 (iii), as the case may be, the wages paid or
2 incurred by the employer during the tax-
3 able year to any individual but only if—

4 “(I) the employer is engaged in a
5 trade or business in a renewal com-
6 munity throughout such 1-year period,

7 “(II) the individual is a resident
8 of such renewal community through-
9 out such 1-year period, and

10 “(III) substantially all of the
11 services which such individual per-
12 forms for the employer during such 1-
13 year period are performed in such re-
14 newal community.

15 “(ii) QUALIFIED FIRST-YEAR
16 WAGES.—The term ‘qualified first-year
17 wages’ means, with respect to any individ-
18 ual, qualified wages attributable to service
19 rendered during the 1-year period begin-
20 ning with the day the individual begins
21 work for the employer.

22 “(iii) QUALIFIED SECOND-YEAR
23 WAGES.—The term ‘qualified second-year
24 wages’ means, with respect to any individ-
25 ual, qualified wages attributable to service

1 rendered during the 1-year period begin-
 2 ning on the day after the last day of the
 3 1-year period with respect to such individ-
 4 ual determined under clause (ii).”

5 (b) CONGRUENT TREATMENT OF RENEWAL COMMU-
 6 NITIES AND ENTERPRISE ZONES FOR PURPOSES OF
 7 YOUTH RESIDENCE REQUIREMENTS.—

8 (1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii)
 9 and (B) of section 51(d)(5) are each amended by
 10 striking “empowerment zone or enterprise commu-
 11 nity” and inserting “empowerment zone, enterprise
 12 community, or renewal community”.

13 (2) QUALIFIED SUMMER YOUTH EMPLOYEE.—
 14 Clause (iv) of section 51(d)(7)(A) is amended by
 15 striking “empowerment zone or enterprise commu-
 16 nity” and inserting “empowerment zone, enterprise
 17 community, or renewal community”.

18 (3) HEADINGS.—Paragraphs (5)(B) and (7)(C)
 19 of section 51(d) are each amended by inserting “OR
 20 COMMUNITY” in the heading after “ZONE”.

21 **SEC. 623. CONFORMING AND CLERICAL AMENDMENTS.**

22 (a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY
 23 DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR
 24 NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62
 25 (relating to adjusted gross income defined) is amended by

1 inserting after paragraph (17) the following new para-
2 graph:

3 “(18) FAMILY DEVELOPMENT ACCOUNTS.—The
4 deduction allowed by section 1400H(a)(1)(A).”

5 (b) TAX ON EXCESS CONTRIBUTIONS.—

6 (1) TAX IMPOSED.—Subsection (a) of section
7 4973 is amended by striking “or” at the end of
8 paragraph (3), adding “or” at the end of paragraph
9 (4), and inserting after paragraph (4) the following
10 new paragraph:

11 “(5) a family development account (within the
12 meaning of section 1400H(e)),”.

13 (2) EXCESS CONTRIBUTIONS.—Section 4973 is
14 amended by adding at the end the following new
15 subsection:

16 “(g) FAMILY DEVELOPMENT ACCOUNTS.—For pur-
17 poses of this section, in the case of a family development
18 account, the term ‘excess contributions’ means the sum
19 of—

20 “(1) the excess (if any) of—

21 “(A) the amount contributed for the tax-
22 able year to the account (other than a qualified
23 rollover, as defined in section 1400H(c)(7), or
24 a contribution under section 1400I), over

1 “(B) the amount allowable as a deduction
2 under section 1400H for such contributions,
3 and

4 “(2) the amount determined under this sub-
5 section for the preceding taxable year reduced by the
6 sum of—

7 “(A) the distributions out of the account
8 for the taxable year which were included in the
9 gross income of the payee under section
10 1400H(b)(1),

11 “(B) the distributions out of the account
12 for the taxable year to which rules similar to
13 the rules of section 408(d)(5) apply by reason
14 of section 1400H(b)(3), and

15 “(C) the excess (if any) of the maximum
16 amount allowable as a deduction under section
17 1400H for the taxable year over the amount
18 contributed to the account for the taxable year
19 (other than a contribution under section
20 1400I).

21 For purposes of this subsection, any contribution which
22 is distributed from the family development account in a
23 distribution to which rules similar to the rules of section
24 408(d)(4) apply by reason of section 1400H(b)(3) shall
25 be treated as an amount not contributed.”

1 (c) TAX ON PROHIBITED TRANSACTIONS.—Section
2 4975 is amended—

3 (1) by adding at the end of subsection (c) the
4 following new paragraph:

5 “(6) SPECIAL RULE FOR FAMILY DEVELOP-
6 MENT ACCOUNTS.—An individual for whose benefit a
7 family development account is established and any
8 contributor to such account shall be exempt from the
9 tax imposed by this section with respect to any
10 transaction concerning such account (which would
11 otherwise be taxable under this section) if, with re-
12 spect to such transaction, the account ceases to be
13 a family development account by reason of the appli-
14 cation of section 1400H(d)(2) to such account.”,
15 and

16 (2) in subsection (e)(1), by striking “or” at the
17 end of subparagraph (E), by redesignating subpara-
18 graph (F) as subparagraph (G), and by inserting
19 after subparagraph (E) the following new subpara-
20 graph:

21 “(F) a family development account de-
22 scribed in section 1400H(e), or”.

23 (d) INFORMATION RELATING TO CERTAIN TRUSTS
24 AND ANNUITY PLANS.—Subsection (c) of section 6047 is
25 amended—

1 (1) by inserting “or section 1400H” after “sec-
 2 tion 219”, and

3 (2) by inserting “, of any family development
 4 account described in section 1400H(e),”, after “sec-
 5 tion 408(a)”.

6 (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-
 7 TION.—Clause (i) of section 6104(a)(1)(B) is amended by
 8 inserting “a family development account described in sec-
 9 tion 1400H(e),” after “section 408(a),”.

10 (f) FAILURE TO PROVIDE REPORTS ON FAMILY DE-
 11 VELOPMENT ACCOUNTS.—Paragraph (2) of section
 12 6693(a) is amended by striking “and” at the end of sub-
 13 paragraph (C), by striking the period and inserting “,
 14 and” at the end of subparagraph (D), and by adding at
 15 the end the following new subparagraph:

16 “(E) section 1400H(g)(7) (relating to fam-
 17 ily development accounts).”

18 (g) CONFORMING AMENDMENTS REGARDING COM-
 19 MERCIAL REVITALIZATION CREDIT.—

20 (1) Section 46 (relating to investment credit) is
 21 amended by striking “and” at the end of paragraph
 22 (2), by striking the period at the end of paragraph
 23 (3) and inserting “, and”, and by adding at the end
 24 the following new paragraph:

1 “(4) the commercial revitalization credit pro-
2 vided under section 1400K.”

3 (2) Section 39(d) is amended by adding at the
4 end the following new paragraph:

5 “(9) NO CARRYBACK OF SECTION 1400K CREDIT
6 BEFORE DATE OF ENACTMENT.—No portion of the
7 unused business credit for any taxable year which is
8 attributable to any commercial revitalization credit
9 determined under section 1400K may be carried
10 back to a taxable year ending before the date of the
11 enactment of section 1400K.”

12 (3) Subparagraph (B) of section 48(a)(2) is
13 amended by inserting “or commercial revitalization”
14 after “rehabilitation” each place it appears in the
15 text and heading.

16 (4) Subparagraph (C) of section 49(a)(1) is
17 amended by striking “and” at the end of clause (ii),
18 by striking the period at the end of clause (iii) and
19 inserting “, and”, and by adding at the end the fol-
20 lowing new clause:

21 “(iv) the portion of the basis of any
22 qualified revitalization building attributable
23 to qualified revitalization expenditures.”

1 (5) Paragraph (2) of section 50(a) is amended
2 by inserting “or 1400K(d)(2)” after “section 47(d)”
3 each place it appears.

4 (6) Subparagraph (A) of section 50(b)(2) is
5 amended by inserting “or qualified revitalization
6 building (respectively)” after “qualified rehabilitated
7 building”.

8 (7) Subparagraph (B) of section 50(a)(2) is
9 amended by adding at the end the following new
10 sentence: “A similar rule shall apply for purposes of
11 section 1400K.”

12 (8) Paragraph (2) of section 50(b) is amended
13 by striking “and” at the end of subparagraph (C),
14 by striking the period at the end of subparagraph
15 (D) and inserting “; and”, and by adding at the end
16 the following new subparagraph:

17 “(E) a qualified revitalization building (as
18 defined in section 1400K) to the extent of the
19 portion of the basis which is attributable to
20 qualified revitalization expenditures (as defined
21 in section 1400K).”

22 (9) Subparagraph (C) of section 50(b)(4) is
23 amended—

1 (A) by inserting “or commercial revitaliza-
 2 tion” after “rehabilitated” in the text and head-
 3 ing, and

4 (B) by inserting “or commercial revitaliza-
 5 tion” after “rehabilitation”.

6 (10) Subparagraph (C) of section 469(i)(3) is
 7 amended—

8 (A) by inserting “or section 1400K” after
 9 “section 42”; and

10 (B) by striking “CREDIT” in the heading
 11 and inserting “AND COMMERCIAL REVITALIZA-
 12 TION CREDITS”.

13 (h) CLERICAL AMENDMENTS.—

14 (1) The table of subchapters for chapter 1 is
 15 amended by adding at the end the following new
 16 item:

“Subchapter X. Renewal Communities.”

17 (2) The table of parts for subchapter X of
 18 chapter 1 (as added by subtitle A) is amended by
 19 adding at the end the following new items:

“Part II. Renewal community capital gain and stock.

“Part III. Family development accounts.

“Part IV. Additional Incentives.”

1 **TITLE VII—TAX REDUCTIONS**
2 **CONTINGENT ON SAVING SO-**
3 **CIAL SECURITY**

4 **SEC. 701. TAX REDUCTIONS CONTINGENT ON SAVING SO-**
5 **CIAL SECURITY.**

6 (a) REQUIREMENT FOR BALANCED BUDGET AND SO-
7 CIAL SECURITY SOLVENCY.—Notwithstanding any other
8 provision of this Act, no provision of this Act (or amend-
9 ment made thereby) shall take effect before the first Janu-
10 ary 1 after the date of the enactment of this Act that fol-
11 lows a calendar year for which there is a social security
12 solvency certification.

13 (b) EXEMPTION OF FUNDED PROVISIONS .—The fol-
14 lowing provisions shall take effect without regard to sub-
15 section (a):

16 (1) Subtitle C of title I (relating to increase in
17 social security earnings limit and recomputation of
18 benefits).

19 (2) Section 213 (relating to production flexibil-
20 ity contract payments).

21 (3) Title III (relating to extension and modi-
22 fication of certain expiring provisions).

23 (4) Title IV (relating to revenue offset).

24 (5) Title V (relating to technical corrections).

1 (c) SOCIAL SECURITY SOLVENCY CERTIFICATION.—

2 For purposes of subsection (a), there is a social security
 3 solvency certification for a calendar year if, during such
 4 year, the Board of Trustees of the Social Security Trust
 5 Funds certifies that the Federal Old-Age and Survivors
 6 Insurance Trust Fund and the Federal Disability Insur-
 7 ance Trust Fund are in actuarial balance for the 75-year
 8 period utilized in the most recent annual report of such
 9 Board of Trustees pursuant to section 201(c)(2) of the
 10 Social Security Act (42 U.S.C. 401(c)(2)).

11 **SEC. 702. RESERVATION OF SOCIAL SECURITY SURPLUSES**

12 **SOLELY FOR SOCIAL SECURITY SYSTEM.**

13 (a) IN GENERAL.—Section 201 of the Social Security
 14 Act (42 U.S.C. 401) is amended by adding at the end the
 15 following new subsection:

16 “(n)(1) The Secretary of the Treasury, before the be-
 17 ginning of each fiscal year, shall estimate the amount of
 18 the Social Security surplus for such year. For purposes
 19 of this subsection, the term ‘Social Security surplus’
 20 means the excess of the receipts in the Trust Funds dur-
 21 ing the fiscal year (including interest on obligations held
 22 in such funds) over the outlays from such funds during
 23 such year.

24 “(2) If the Secretary of the Treasury determines that
 25 there is a Social Security surplus for any fiscal year, such

1 Secretary shall transfer during such year from the general
2 fund of the Treasury an amount equal to the amount of
3 the surplus to the Federal Reserve Bank of New York.
4 Such transfer shall be made monthly on the basis of esti-
5 mates by the Secretary of the Treasury of the portion of
6 the surplus attributable to the month, and proper adjust-
7 ments shall be made in amounts subsequently transferred
8 to the extent prior estimates were in excess of or less than
9 amounts required to be transferred. Amounts transferred
10 under this paragraph shall substitute for (and be in lieu
11 of) equivalent amounts otherwise required to be trans-
12 ferred to the Trust Funds.

13 “(3) The Federal Reserve Bank of New York shall
14 hold the amounts transferred under paragraph (2), and
15 all income from investment thereof, in trust for the benefit
16 of the Trust Funds. Amounts so held shall be invested
17 in marketable obligations of the United States with matu-
18 rities that the Managing Trustee determines are consist-
19 ent with the requirements of the Trust Funds. Amounts
20 held in trust under this paragraph (and earnings thereon)
21 shall be treated as part of the balance of the Trust Funds.

22 “(4) If, at any time, any obligation acquired under
23 paragraph (2) has a market value less than its acquisition
24 cost by reason of a change in interest rates, the Federal
25 Reserve Bank of New York may, at any time, present such

1 obligation to the Secretary of the Treasury for redemp-
2 tion, notwithstanding the maturity date or any other re-
3 quirement relating to such obligation, and the Secretary
4 of the Treasury shall redeem such obligation for an
5 amount that is not less than such acquisition cost.

6 “(5) Upon request by the Managing Trustee, the
7 Federal Reserve Bank of New York shall transfer to the
8 appropriate Trust Fund the amount determined by the
9 Managing Trustee to be necessary to meet the obligations
10 of such Fund.

11 “(6) All transfers to the Federal Reserve Bank of
12 New York under paragraph (2) shall be treated as Federal
13 outlays for all budgetary purposes of the United States
14 Government, except that such transfers shall not be sub-
15 ject to section 252 of the Balanced Budget and Emer-
16 gency Deficit Control Act of 1985 and all transfers to the
17 Trust Funds under paragraph (5) shall be treated as off-
18 setting receipts.”.

19 (b) EFFECTIVE DATE.—The amendment made by
20 subsection (a) shall apply to fiscal years beginning on or
21 after October 1, 1998.

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